

INVEST REAL ESTATE INVESTMENT TRUST

MANAGEMENT INFORMATION CIRCULAR

Unless otherwise indicated, all information is current as at March 21, 2005 and all dollar amounts are expressed in Canadian dollars.

This Proxy Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of INVEST REAL ESTATE INVESTMENT TRUST (the "REIT") for use at the annual meeting of Unitholders ("Unitholders") of the REIT to be held on May 18, 2005 and any adjournment(s) or postponement(s) thereof for the purposes set forth in the accompanying Notice of Meeting. It is expected that the solicitation will be made primarily by mail, but proxies may also be solicited by telephone or other personal contact by employees of the REIT. The costs of solicitation will be borne by the REIT.

Appointment and Revocation of Proxies

A form of proxy is enclosed and, if it is not your intention to be present at the meeting, you are asked to complete and return the form of proxy in the envelope provided. The proxy must be dated and executed by the Unitholder or the attorney of such Unitholder, duly authorized in writing, or if the Unitholder is a corporation, by an Officer or attorney thereof duly authorized. If the proxy is executed by an attorney, a copy of the instrument appointing the attorney must accompany the proxy. Proxies to be used at the meeting may be deposited with the REIT's transfer agent, Computershare Trust Company of Canada, by no later than noon (Toronto time) on the last business day preceding the day of the meeting or any adjournment thereof or such other time as the Chairman may determine. Proxies sent by mail must be addressed to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1. Proxies may be deposited with the Chairman of the meeting on the day of the meeting or any adjournment(s) or postponement(s) thereof.

The people named in the enclosed form of proxy are Trustees or Officers of the REIT. **A Unitholder has the right to appoint a proxy holder (who is not required to be a Unitholder), other than any person designated in the form of proxy, to attend and act on such Unitholder's behalf at the meeting, either by inserting such other desired proxy holder's name in the blank space provided on the form of proxy and deleting the names thereon or by substituting another proper form of proxy.**

A Unitholder who has given a proxy pursuant to this solicitation may revoke it as to any matter on which a vote has not already been cast pursuant to its authority by instrument in writing executed by the Unitholder or by the attorney of such Unitholder, duly authorized in writing, or where the Unitholder is a corporation, by a duly authorized Officer or attorney of the corporation delivered to Computershare Trust Company of Canada, in such manner and at such address as specified above, at any time up to and including the last business day preceding the day of the meeting or any adjournment(s) or postponement(s) thereof at which the proxy is to be used or with the Chairman of the meeting on the day of the meeting or any adjournment(s) or postponement(s) thereof, or in any other manner permitted by law.

Units of the REIT ("Units") represented by proxies will be voted or withheld from voting as specified on any ballot that may be called for. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to (i) each matter or group of matters identified therein for which no choice is specified, (ii) such other matters as may properly come before the meeting or any adjournment thereof. In respect of a matter for which no choice is specified in the proxy, or unless otherwise provided for in the proxy, the nominees named in the accompanying form of proxy will vote Units represented by the proxy for the approval of such matter.

At the date of this Proxy Circular, management of the REIT is not aware of any amendments or other matters to come before the meeting other than the matters referred to in the Notice or Meeting. **With respect to amendments to matters identified in the Notice of Meeting or other matters that may come before the meeting, such Units will be voted by the persons so designated in their discretion.**

Voting at Meeting and Quorum

On March 21, 2005, there were 45,985,336 Units issued and outstanding. Each Unit entitles its holder to one vote at meetings of Unitholders of the REIT. Holders of Units of record at the close of business on April 7, 2005, the record date established for notice of the meeting, will be entitled to vote at the meeting, or any adjournment(s) or postponement(s) thereof, either in person or by proxy.

Unless otherwise required by law or the Declaration of Trust, every question coming before the meeting or any adjournment(s) or postponement(s) thereof shall be decided by the majority of the votes duly cast on the question. The quorum at the meeting or any adjournment thereof shall consist of at least two individuals present in person, each of whom is a Unitholder or a proxy holder representing a Unitholder, and who hold or represent by proxy not less than 10% of the total number of outstanding Units.

To the knowledge of the Trustees and Executive Officers of the REIT, Goodman & Company, Investment Counsel Ltd. owns approximately 12.2% of the units of the REIT listed as "INN.UN" on the Toronto Stock Exchange, and approximately \$4,730,000 in convertible debentures listed as "INN.DB" on the Toronto Stock Exchange. Other than Goodman & Company, to the knowledge of the Trustees and Executive Officers of the REIT, there is no other direct or indirect beneficial owner of, or person who exercises control or direction over, Units carrying more than 10% of the votes attached to the outstanding Units.

Business of the Meeting

1. Financial Statements

The Consolidated Financial Statements for the year ended December 31, 2004 and the auditors' report on those statements were mailed to the Unitholders with the Notice of Meeting and this proxy circular. No vote by the Unitholders is required with respect to this matter.

2. Election of the Board of Trustees

The four Trustees proposed for election as Trustees to the Board of Trustees of the REIT (also referred to as the "Board") are listed on pages 3 and 4 of this Proxy Circular. They are Mr. Frank Anderson, Mr. Morton G. Gross, Mr. Michael P. Kitt and Mr. Minhas N. Mohamed. All are currently members of the Board of Trustees of the REIT. All nominees have established their eligibility and willingness to serve as Trustees. Trustees who are elected by the Unitholders will hold office until the close of the next annual meeting of Unitholders or until their successors are elected or appointed. The remaining three Trustees, Mr. Brian C. Collyer, Mr. Majid Mangalji and Ms. Lauren J. Zucker, have been appointed as described below and will hold office until such Trustees resign or are replaced. A Trustee elected or appointed to fill a vacancy will be elected for the remaining term of the Trustee whom he or she is succeeding. A vacancy occurring among the Trustees (other than a vacancy resulting from the resignation or removal of a nominee of the Whitehall Funds or the Westmont Group, each as defined below) may be filled by resolution of a quorum of the remaining Trustees, being the greater of three Trustees and a majority of the Trustees then holding office, or by the Unitholders at a meeting of the Unitholders.

Pursuant to the Declaration of Trust of the REIT, certain investment funds controlled by The Goldman Sachs Group, Inc. (the "Whitehall Funds") have the right to appoint one Trustee, as they currently own between 5% and 15% of the outstanding Units. A group of entities commonly referred to as the Westmont Hospitality Group (the "Westmont Group") has the right to appoint one Trustee, as they own, in the aggregate, at least 5% of the outstanding Units. Westmont Hospitality Canada Limited (the "Manager") has the right to appoint one Trustee, provided that the master hotel management agreement of the REIT (the "Management Agreement") remains in effect and that the appointment would not result in a majority of the Trustees not being independent Trustees. See "Interests of Informed Persons in Material Transactions – Master Hotel Management Agreement". Therefore, the Whitehall Funds and the Westmont Group are currently entitled to collectively appoint three of the seven Trustees. The remaining Trustees are to be elected by a plurality of the votes cast at the meeting. The Whitehall Funds and the Westmont Group are entitled to vote their Units for the election of the remaining four Trustees.

3. **Appointment of Auditors**

The Trustees and management of the REIT propose that Deloitte & Touche LLP be re-appointed as the auditors of the REIT at remuneration to be fixed by the Trustees. Deloitte & Touche LLP were first appointed by the REIT as auditors on July 18, 2002 in connection with the initial public offering of the REIT.

For the year ended December 31, 2004, fees for audit and related services provided by Deloitte & Touche LLP to the REIT were approximately \$375,000. Non-audit fees paid to Deloitte & Touche LLP relating to tax planning, and other advisory services in 2004 were approximately \$161,590. The Audit Committee has reviewed the nature of non-audit services provided by the auditors to ensure they are consistent with maintaining the auditors' independence.

Interest of the Trustees and Management in Business of the Meeting

Each of the Trustees and Executive Officers holds units of the REIT. The unitholdings of the Trustees of the REIT is described at "Nominees for Election to the Board of Trustees" below. The unitholdings of Kenneth D. Gibson, Chief Executive Officer of the REIT, and Tamara Lawson, Chief Financial Officer of the REIT, is 8,404 and 10,652, respectively. Mr. Gibson and Ms. Lawson have also been granted restricted units under the Executive Incentive Plan, as described at "Executive Incentive Plan" below.

Nominees for Election to the Board of Trustees

Frank Anderson, FCA
Ontario, Canada

Trustee since June 5, 2002

Unitholding: 4,860

Frank Anderson, FCA is currently the President of LIN Solutions Inc., and was a senior partner in the Toronto office of a major accounting firm until his retirement in 1999. He 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. Mr. Anderson is a member of the Boards of Directors of the Canadian Council of Christians and Jews 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 also serves as Chair and President of the Board of the Heart and Stroke Foundation of Ontario. He also serves as a member of the Board and chairman of the Audit Committee for O&Y REIT, Dundee Wealth Management Inc., 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.

Mr. Anderson is an independent Trustee and is a member of the Investment and Audit Committees of the REIT.

Morton G. Gross, Q.C.
Ontario, Canada

Trustee since June 5, 2002

Unitholding: 6,898

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 Real Estate Professional Group. Prior to joining Borden Ladner Gervais LLP in 1982, he specialized in real estate law at his own firm. Mr. Gross holds a Bachelor of Laws degree from the University of Toronto and was called to the Ontario Bar in 1967.

Mr. Gross is an independent Trustee and is a member of the REIT's Investment and Compensation and Corporate Governance Committees.

Michael P. Kitt
Ontario, Canada

Trustee since June 5, 2002

Unitholding: 14,059

Michael P. Kitt is the Executive Vice-President, Development for The Cadillac Fairview Corporation Limited, which invests in, owns and manages commercial real estate. Mr. Kitt is responsible for Cadillac Fairview's office and retail development programs. Prior to joining Cadillac Fairview in 1996, he was Portfolio Manager, Real Estate for the Ontario Teachers' Pension Plan Board. He holds an undergraduate degree from the University of Manitoba and is a Chartered Financial Analyst.

Mr. Kitt is an independent Trustee and is a member of the REIT's Investment, Audit and Compensation and Corporate Governance Committees.

Minhas N. Mohamed
Ontario, Canada

Trustee since June 5, 2002

Unitholding: 5,359

Minhas N. Mohamed is President, Chief Executive Officer and Co-Founder of MMV Financial Inc. Mr. Mohamed was the Managing Partner of MM Venture Partners (predecessor firm). As President & CEO, Mr. Mohamed has overall management and strategic responsibility for MMV Financial. MM Venture Partners provides debt and equity financing to early and mid-stage Canadian information technology and biotechnology companies. MMV Financial. He has over 19 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 10 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.

Mr. Mohamed is an independent Trustee and is a member of the REIT's Investment, Audit and Compensation and Corporate Governance Committees.

Trustees Continuing in Office

The following Trustees of the REIT are appointed by the Westmont Group and the Whitehall Funds.

Brian C. Collyer

Le Vesinet, France

Trustee since June 5, 2002

Unitholding: 4,059⁽¹⁾

(1) Units issued as part of Trustee compensation and are beneficially owned by Goldman Sachs & Co.

Brian C. Collyer is a Vice President in the Real Estate Principal Investment Area of Goldman Sachs & Co. responsible for the management of Whitehall Street Real Estate Funds investments in Europe and Latin America. Prior to joining Goldman Sachs & Co., Mr. Collyer was responsible for the origination of mortgage and real estate investments for a large Canadian public real estate company and has managed the sale, joint venture, acquisition and initial public offering of more than US\$6 billion of Canadian and U.S. real estate assets. Mr. Collyer holds an undergraduate degree in Architecture from the University of Manitoba and a Master of Business Administration from McGill University in Montreal. He was also a member of Canada's 1984 Olympic team.

Mr. Collyer is a nominee of the Manager and is a member of the REIT's Investment Committee.

Majid Mangalji

Wimbledon, England

Trustee since June 5, 2002

Unitholding: 5,359

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. Since its inception, the Westmont Group 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 the Westmont 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 holds a business degree with a double major in Accounting and Marketing from the University of Bradford, England.

Mr. Mangalji is a nominee of the Westmont Group. He is the Chairman of the Board of Trustees and a member of the REIT's Investment Committee.

Lauren J. Zucker

New York, U.S.A.

Trustee since June 5, 2002

Unitholding: 4,059⁽¹⁾

(1) Units issued as part of Trustee compensation and are beneficially owned by Goldman Sachs & Co.

Lauren J. Zucker is a Vice President in the Real Estate Principal Investment Area at Goldman Sachs & Co. Since joining Goldman Sachs & Co. in 1991, Ms. Zucker has spent time in both the firm's New York and Hong Kong offices and has focused principally on investing and managing the Whitehall Street Real Estate Funds. Ms. Zucker also serves on Goldman Sachs' Urban Investment Group's Investment Committee. She holds an undergraduate degree from Brown University and a Master of Business Administration from Harvard University.

Ms. Zucker is a nominee of the Whitehall Funds. She is a member of the REIT's Investment Committee.

Compensation of the Board of Trustees

The Chairman's annual retainer fee is \$40,000 and the annual retainer fee for the remaining Board members is \$30,000. In addition, the annual retainer fee for Committee Chairs is \$10,000 except for the Chair of the Audit Committee whose annual retainer fee is \$12,500. Trustees are paid a fee of \$1,000 per Board or Committee meeting attended in person and \$500 for a telephone meeting. Trustees are also reimbursed for travel and out-of-pocket expenses incurred in acting as Trustee.

Trustees are paid one-half of their annual retainer fee in Units (based on the volumetric weighted average trading price of the last five trading days of the quarter). The REIT has reserved a maximum of 100,000 Units for this purpose and any increase in this maximum is subject to regulatory approval and Unitholder approval, if required. The Trustees' compensation can only be changed by unanimous consent of the Trustees. In addition, Trustees, either directly or indirectly, are entitled to receive remuneration for services rendered to the REIT in any other capacity. Trustees who are employees of, and who receive salary from, the REIT shall not be entitled to receive any remuneration for their services as Trustees but are entitled to reimbursement of their out-of-pocket expenses. Other than the payment of one-half of the annual retainer fee being paid in units, all other fees are paid in cash. For the year ended December 31, 2004, all fees in relation to Trustee compensation totalled \$349,420.

Summary of Board and Committee Meetings Held During the Year Ended December 31, 2004

Board	14
Audit Committee	6
Compensation and Corporate Governance Committee	2
Total number of meetings held	<hr/> 22

In addition to the above meetings, the independent Trustees met as a group on multiple occasions during 2004.

Corporate Governance Practices

Effective corporate governance is a priority for the Board of Trustees. Through the Compensation and Corporate Governance Committee, the Board reviews, evaluates and modifies its governance program to ensure that the REIT's governance plan is consistent with the guidelines for improved corporate governance adopted by the Toronto Stock Exchange (the "TSX Guidelines"). A detailed comparison of the REIT's corporate governance procedures with the TSX Guidelines may be found in Schedule 1 attached to this Proxy Circular.

Proposed amendments to the TSX guidelines were published in the spring of 2002, with a further set of proposed amended guidelines circulated by the TSX in December 2002. The Canadian securities regulators, including the Ontario Securities Commission, have published a proposed multilateral policy regarding corporate governance (the "Governance Policy"), as well as a proposed multilateral instrument regarding disclosure of governance practices (the "Disclosure Rule"). The Governance Policy sets out 18 best practices drawn from existing Canadian standards and recently enacted U.S. regulatory standards in the following areas: (i) Board independence, (ii) the role of the Board generally, (iii) the role of the Board in the issuer's ethical framework, (iv) Board effectiveness, (v) the nomination of directors and (vi) the setting of executive compensation. When the Governance Policy and Disclosure Rule are finalized and take effect, the REIT will be required to describe in its annual information form certain aspects of its corporate governance practices, including a discussion of any practices that are inconsistent with the Governance Policy.

The Canadian securities administrators have also introduced new rules regarding the composition of audit committees and the certification of an issuer's disclosure controls and procedures. The REIT currently complies with the new rule regarding the composition of its audit committee. The REIT is currently required to file a "bare" certificate of the CEO and CFO with each quarterly report essentially indicating that the report fairly presents in all

material respects the financial condition, results of operations and cash flows of the REIT. A "full" certificate on quarterly reports, which will certify the REIT's disclosure controls and procedures, will be required for each quarter beginning with the first quarter of 2006. Similarly, the REIT is currently required to file a "bare" certificate of the CEO and CFO with its annual financials for the 2004 financial year and will be required to file a "full" annual certificate for each year thereafter.

In this Proxy Circular and the attached Schedule 1, the term "unrelated" Trustee has the corresponding meaning given to the term "unrelated" director in the TSX Guidelines; namely, a Trustee who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Trustee's ability to act with a view to the best interests of the REIT, other than interests and relationships arising from his or her Unitholdings. A majority of the current Trustees of the REIT, and all of the nominees standing for election as Trustees, are "unrelated" within the meaning of the TSX Guidelines.

Independent Trustee Matters

In addition to requiring the approval of a majority of the Trustees, approval of not less than 66⅔% of the independent Trustees of the REIT who have no interest in the matter is required with respect to any decision:

- (a) to make a material change to the Management Agreement or Administrative Services Agreement of the REIT, change the fees payable to the Manager, renew the Management Agreement or the Administrative Services Agreement at the end of their respective terms or appoint a substitute for the Manager after the end of the term of the Management Agreement;
- (b) to enter into any agreement or transaction in which any related party of the REIT 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 of the REIT;
- (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 the 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 of the REIT has an interest or to sell any interest in any real or other property to a related party of the REIT;
- (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 of the REIT, or with the Manager or any successor as hotel manager under the Management Agreement.

Committees of the Board of Trustees

There are currently three committees of the Board of Trustees. They are the Investment Committee, the Audit Committee and the Compensation and Corporate Governance Committee.

Investment Committee

All of the Trustees are currently members of the Investment Committee. The Investment Committee's primary duties and responsibilities include (i) reviewing and approving or rejecting proposed acquisitions and dispositions of investments by the REIT, (ii) authorizing proposed transactions, and (iii) approving all financing arrangements and the assumption or granting of mortgages.

Audit Committee

The members of the Audit Committee are Frank Anderson, Michael P. Kitt and Minhas N. Mohamed. All of the members of the Audit Committee are unrelated within the meaning of the TSX Guidelines. The Audit Committee's primary duties and responsibilities include (i) reviewing the REIT's internal control procedures with the auditors and management, (ii) reviewing the engagement and the independence of the REIT's auditors, (iii) reviewing and recommending to the Trustees for their approval the annual and quarterly financial statements and management's discussion and analysis of financial condition and results of operation, and the disclosure of other financial information, and (iv) reviewing and discussing changes to and the application of accounting principles with management and the auditors.

Compensation and Corporate Governance Committee

The members of the Compensation and Corporate Governance Committee are Morton G. Gross, Michael P. Kitt and Minhas N. Mohamed. All of the members of the Compensation and Corporate Governance Committee are unrelated within the meaning of the TSX Guidelines. The primary duties and responsibilities of the Compensation and Corporate Governance Committee include (i) developing the corporate governance policy of the Board of Trustees, and (ii) developing the REIT's human resources and compensation policies.

Statement of Executive Compensation

Summary Compensation Table for Named Executive Officers

The compensation of the Chief Executive Officer and Chief Financial Officer of the REIT (the "Named Executive Officers"), the only Officers of the REIT, is summarized in the following table, which includes a description of any units granted by the REIT. This information is in respect of services for the period ended December 31, 2002, and the years ended December 31, 2003 and December 31, 2004.

Name and Principal Position	Year	Annual Compensation			Payouts
		Salary (1),(2) (\$)	Bonus (\$)	Other Annual Compensation (\$) ⁽³⁾	LTIP Payouts (units) ⁽⁴⁾
Kenneth D. Gibson	2004	\$185,400	\$104,000	\$40,576	14,962
President and Chief Executive Officer	2003	\$180,000	\$80,000	\$37,075	13,442
	2002	\$180,000	\$47,291	\$10,987	Nil
Tamara L. Lawson	2004	\$115,875	\$50,000	Nil	5,611
Chief Financial Officer and Secretary	2003	\$112,500	\$37,000	Nil	5,041
	2002	\$112,500	\$21,112	Nil	Nil
Ken Purdy	2004	\$170,000	\$32,640	Nil	Nil
Vice President, Corporate Development	2003	\$170,000	Nil	Nil	Nil
	2002	Nil	Nil	Nil	Nil

- (1) Compensation paid by the REIT pursuant to the Named Executive Officers' employment agreements. The Named Executive Officers are required to devote at least 50% of their time to managing the affairs of the REIT. See "Employment Agreements".
- (2) Salaries for 2002 are annualized. Mr. Gibson and Mr. Lawson were employed by the REIT from the date of its initial public offering on July 26, 2002. Ken Purdy's salary in 2003 is annualized to take into account the fact that his employment began in October 2003.
- (3) Mr. Gibson's compensation includes equalization payments made to compensate for the personal taxation difference between what his after-tax income would be in the United States of America as opposed to Canada. The equalization payment is a benefit to which Mr. Gibson is entitled as a result of his employment agreement.
- (4) Restricted units that have vested under the Executive Incentive Plan. See "Executive Incentive Plan". In 2002, Mr. Gibson and Ms. Lawson were credited with 36,000 and 13,500 Units, respectively, in respect of the Initial Public Offering. In 2003, Mr. Gibson and Ms. Lawson were credited with 12,338 and 5,508 Units, respectively, and in respect of their performance in 2002. In 2004, Mr. Gibson and Ms. Lawson were credited with 6,987 and 3,231 Units, respectively, in respect of their performance in 2003. In 2005, Mr. Gibson and Ms. Lawson were credited with 8,859 and 4,259 Units, respectively, in respect of their performance in 2004. The restricted units granted in 2003, 2004 and 2005 vest equally on the third and fourth anniversaries of the effective date of grant. The restricted units granted in 2002 vest in three equal annual instalments. Mr. Gibson and Ms. Lawson are granted additional restricted units in respect of distributions paid on the grant of restricted units. These additional restricted units vest in the same proportion as the original grant of restricted units. In 2004, Mr. Gibson and Ms. Lawson were credited with 4,603 and 1,901 restricted units, respectively, for distributions paid on the Units. In 2003, Mr. Gibson and Ms. Lawson were credited with 5,677 and 2,241 restricted units, respectively, for distributions paid on the Units. During 2002, Mr. Gibson and Ms. Lawson were credited with 1,533 and 575 restricted units, respectively, for distributions paid on the Units.

LTIP Awards Table for Named Executive Officers

The LTIP awards made for each Named Executive Officer of the REIT during the year ended December 31, 2004 are summarized in the table below.

Name and Principal Position	Restricted Units ⁽¹⁾	Payment Date⁽²⁾
Kenneth D. Gibson Chief Executive Officer	13,462	50% to vest on January 1, 2008 and 50% to vest on January 1, 2009
Tamara L. Lawson Chief Financial Officer	6,160	50% to vest on January 1, 2008 and 50% to vest on January 1, 2009
Ken Purdy Vice President, Corporate Development	Nil	Not applicable

- (1) The restricted units shown reflect units granted in relation to performance in 2004 as well as units granted in respect of distributions paid on the grant of restricted units from prior periods.
- (2) Payment date reflects the vesting period of the restricted units granted in 2004 except for units granted in respect of distributions paid on the grant of restricted units, which vest over the same vesting period of the original grant of units.

Executive Incentive Plan

Description of Executive Incentive Plan

The Named Executive Officers participate in the Executive Incentive Plan pursuant to which they may be granted restricted units from time to time. Restricted units vest pursuant to a schedule that has been approved by the Trustees. Each restricted unit entitles the holder to receive a payment on the vesting date, payable in Units based on their then current market value, equal to the then current market value of one Unit plus the value of the cash distributions that would have been paid on one Unit if it had been issued on the date of grant of the restricted unit, assuming the reinvestment of these distributions in Units. The REIT has reserved a maximum of 1,000,000 Units for issuance under the Executive Incentive Plan, and any increase in this maximum or other amendment to the Executive Incentive Plan is subject to regulatory approval and Unitholder approval, if required. As of December 31, 2004, there were 94,010 restricted units issued and outstanding, representing 0.21% of the REIT's currently outstanding Units on an as-converted, fully-diluted basis.

Any Officer of the REIT or senior employee of the REIT or a subsidiary of the REIT who has been designated by the Compensation and Corporate Governance Committee and who has agreed to participate in the Executive Incentive Plan on terms specified by the REIT (each such individual, a "Participant") is eligible to participate in the Employee Incentive Plan. The Employee Incentive Plan gives Participants the right, subject to certain terms and conditions, to receive restricted units on the date stipulated at the time of the grant of the restricted unit, or such date as may be changed from time to time in the discretion of the Compensation and Corporate Governance Committee (the "Payment Date").

Under the Executive Incentive Plan, if a Participant ceases to be employed by the REIT or any of its subsidiaries for any reason other than death, long-term disability, retirement or as a result of the termination of the Participant's employment by the REIT or its subsidiary other than for cause, all rights granted to such Participant under all restricted units for which the Payment Date has not yet occurred will immediately be forfeited.

If a Participant ceases to be an employee of the REIT or any of its subsidiaries by reason of the termination of the Participant's employment by the REIT or its subsidiary other than for cause, any restricted units granted to such Participant for which the Payment Date has not occurred but whose Payment Date will occur no later than one year following the date of the termination notice given to the Participant will continue to be outstanding and, unless otherwise agreed by the REIT or determined by the Compensation and Corporate Governance Committee, all other restricted units will be immediately forfeited.

If a Participant dies or ceases to be an employee of the REIT or any of its subsidiaries by reason of long-term disability or retirement or for any other reason specified by the REIT, in its sole discretion, the Payment Date for all restricted units granted to such Participant will be determined by the REIT in its sole discretion. In this

circumstance, the Payment Date will not be later than the original Payment Date for the restricted units and the first year anniversary of the Participant's death or termination of employment."

Securities Authorized for Issuance Under the Executive Incentive Plan

As at December 31, 2004, the securities of the REIT which were authorized for issuance under the Executive Incentive Plan are summarized in the table below.

Plan Category	Number of Restricted Units originally reserved for issuance	Number of restricted units which have vested under the Executive Incentive Plan	Number of restricted units which have been granted but not yet vested under the Executive Incentive Plan	Number of Units remaining available for future issuance under Executive Incentive Plan
Equity compensation plans not approved by unitholders ⁽¹⁾	1,000,000	39,056	69,774	891,170

(1) The Executive Incentive Plan was adopted prior to the REIT's Initial Public Offering as approved by the REIT's Board of Trustees and is the only such plan of the REIT in existence as of December 31, 2004.

Employment Agreements

On July 25, 2002, Tamara Lawson and Kenneth D. Gibson, each of whom is a named Executive Officer of the REIT, entered into an employment agreement with the REIT for an indeterminate term. On September 10, 2003, Ken Purdy, who was a named Executive Officer of the REIT as of December 31, 2004, entered into an employment agreement with the REIT for an indeterminate term. Mr. Purdy ceased to be an employee of the REIT as of March 11, 2005.

Each of the named Executive Officers' employment agreements provides for the named Executive Officer's base salary, performance-based bonuses and benefit commitments by the REIT. Mr. Gibson's and Ms. Lawson's employment agreements contain termination and severance provisions, described below, as well as non-competition covenants in favour of the REIT.

Mr. Purdy's employment agreement provided for an annual base salary of \$170,000 per annum and an annual target bonus of 30% of his base salary. Mr. Purdy was entitled to participate in the Executive Incentive Plan of the REIT after his first year of employment. Bonuses to Mr. Purdy under his employment agreement were based the REIT's performance and Mr. Purdy's individual performance, and were within the sole discretion of the REIT. In the event that the REIT terminated Mr. Purdy's employment without cause during his first two years with the REIT, the REIT was required to pay six months' salary and target bonus as compensation for the time required for Mr. Purdy's job transition. Since Mr. Purdy voluntarily resigned his position with the REIT on March 11, 2005, in accordance with the terms and conditions of his employment agreement, he did not receive any severance payments from the REIT.

Ms. Lawson's employment agreement provides for an annual base salary of \$112,500 per annum (based on a base salary of \$225,000 and the proportionate allocation of 50% of Ms. Lawson's working day to managing the affairs of the REIT), subject to any increase the Board of Trustees of the REIT, in its sole discretion, may determine from time to time following its annual review of Ms. Lawson's base salary.

In addition to her annual base salary, Ms. Lawson is eligible for an annual cash performance bonus in an amount up to 50% of her base salary. The performance criteria and target performance levels for the cash performance bonus are established by the Compensation and Corporate Governance Committee in consultation with Ms. Lawson prior to the beginning of each financial year. Ms. Lawson is entitled to be granted restricted units under the Executive Incentive Plan, as determined in accordance with the formula set forth in her employment agreement.

If Ms. Lawson is terminated by the REIT without cause after the first year of employment, Ms. Lawson is entitled to receive any accrued and unpaid base salary, vacation pay and unpaid reimbursements and a lump-sum amount equal to 1.25 times her then current base salary, less any amounts owing by Ms. Lawson to the REIT. Ms. Lawson is also

entitled to participate in and receive benefits under any benefit plans of the REIT, as well as the Executive Incentive Plan, for one year after the REIT terminates her employment without cause.

Mr. Gibson's employment agreement provides for an annual base salary of \$180,000 (based on a base salary of \$360,000 and the proportionate allocation of 50% of Mr. Gibson's working day to managing the affairs of the REIT), subject to any increase the Board of Trustees of the REIT, in its sole discretion, may determine from time to time following its annual review of Mr. Gibson's base salary.

In addition to his annual base salary, Mr. Gibson is eligible for an annual cash performance bonus in an amount up to 70% of his base salary and equalization payments made to compensate for the personal taxation difference between what his after-tax income would be in the U.S. as opposed to Canada. The performance criteria and target performance levels for the cash performance bonus are established by the Compensation and Corporate Governance Committee in consultation with Mr. Gibson prior to the beginning of each financial year. Mr. Gibson is entitled to be granted restricted units under the Executive Incentive Plan, as determined in accordance with the formula set forth in his employment agreement.

If Mr. Gibson is terminated by the REIT without cause or terminates his employment with "good reason" (defined as (i) the assignment to Mr. Gibson of duties materially inconsistent with his position as President and Chief Executive Officer of the REIT which results in a material diminution in his authority, duties or responsibilities or (ii) any material failure by the REIT to comply with any other terms of Mr. Gibson's employment agreement that is not remedied within 30 days), Mr. Gibson is entitled to receive any accrued and unpaid base salary, vacation pay and unpaid reimbursements and a lump-sum amount equal to 2.0 times his then current base salary, less any amounts owing by Mr. Gibson to the REIT. Mr. Gibson is also entitled to participate in and receive benefits under any benefit plans of the REIT, as well as the Executive Incentive Plan, for one year after the REIT terminates his employment without cause or Mr. Gibson terminates his employment for good reason.

Composition of the Compensation and Corporate Governance Committee

The Compensation and Corporate Governance Committee of the REIT for the year ended December 31, 2004 was composed of Morton Gross, Q.C., Michael P. Kitt and Minhas N. Mohamed.

Report on Executive Compensation

It is the responsibility of the Compensation and Corporate Governance Committee to review and recommend to the Board of Trustees annually the compensation proposed to be paid to the REIT's Executive Officers and to make recommendations to the Board concerning annual bonus levels and grants under the REIT's long-term incentive plans. The Compensation and Corporate Governance Committee also reviews such human resources and compensation issues as it considers appropriate, and retains consultants from time to time to provide advice regarding the REIT's compensation strategy and programs.

Compensation Policies

The major elements of the REIT's Executive compensation policies are base salary, a short-term incentive in the form of an annual cash bonus and a long-term incentive program. The Compensation and Corporate Governance Committee believe that this approach best serves the interests of Unitholders by ensuring that Executive Officers are compensated in a manner that addresses both the short and long-term interests of Unitholders. The annual cash bonus is based primarily on the REIT's short-term performance and the issuance of restricted units is based on the REIT's long-term performance. Annual cash bonuses and long-term incentive grants can also be based, in part, on an evaluation of the contributions made by the Executive to the REIT's performance. The applicable performance measures are established by the Compensation and Corporate Governance Committee on an annual basis.

Base Salary

Annual base salary levels for the Executive Officers are established by reference to the range of salaries paid by other Canadian REITs with the intention that the maximum base salary be within a reasonable range of the average of the other Canadian REITs. The Chief Executive Officer and Chief Financial Officer have employment contracts which provide for a specified minimum annual salary subject to such increases as the Board of Trustees determines appropriate.

Annual Cash Bonus

The Compensation and Corporate Governance Committee establishes the amount of the bonus to be paid and this is determined annually based on pre-set goals that are tied to distributable income above specified threshold levels and the achievement of personal goals. The full bonus is awarded if the target levels of performance are exceeded.

Long-Term Incentives

The Compensation and Corporate Governance Committee believes that a material portion of total compensation must be aligned with the REIT's long-term objective which is to maximize the long-term value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are accretive to earnings and cash flow. On completion of the REIT's initial public offering, each of the Named Executive Officers was granted restricted units pursuant to the REIT's Executive Incentive Plan. These initial restricted units vest in three equal annual instalments. In addition, the Named Executive Officers are granted additional restricted units in respect of distributions paid on the grants of restricted units. These additional restricted units vest in the same proportion as the original grant of restricted units. Each year, the Compensation and Corporate Governance Committee determines the number of restricted units to be granted to each of the Named Executive Officers based on each of their anticipated contributions to the long-term growth of the REIT. These restricted units vest at a rate of 50% on each of the third and fourth anniversary of the date of grant.

Allocation of Executive Compensation to the REIT

The Named Executive Officers are also employed by the Manager. They are compensated separately by the REIT and the Manager for their respective roles. The total base salary paid by the REIT presupposes that the Named Executive Officers allocate 50% of their time to the REIT. The amounts indicated in the summary compensation table for the Named Executive Officers are only those amounts paid by the REIT. This approach ensures that the Named Executive Officers are appropriately compensated for their performance at the REIT and provides better alignment between the Unitholders' interests and that of the Named Executive Officers.

Bonuses Awarded and Restricted Units granted to the Named Executive Officers in 2004

During the year ended December 31, 2004, seventy-five percent of the cash performance bonus was based on the REIT having achieved a target that was approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee, relating to the actual distributable income of the REIT in comparison to a budgeted distributable amount. Twenty-five percent of the cash performance bonus was based on certain personal performance goals which were approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee.

For the year ended December 31, 2004, the grant of restricted units under the Executive Incentive Plan was based on the same criteria as reflected above in the determination of the cash performance bonus. The Board of Trustees concluded, based on the recommendation of the Compensation and Corporate Governance Committee, that these performance measures appropriately reflected the Executive Officers' contribution to maximizing the long-term value of the REIT.

Compensation of the Chief Executive Officer

Prior to the REIT's initial public offering in 2002, the Board of Trustees of the REIT approved a compensation package for Mr. Gibson, the CEO of the REIT. Since the REIT's initial public offering, no material changes have been made to Mr. Gibson's compensation package.

During the financial year ended December 31, 2004, the Board of Trustees approved an increase in Mr. Gibson's salary to account for inflation. Mr. Gibson also received a cash performance bonus and was granted restricted units under the Executive Incentive Plan of the REIT as compensation for his services to the REIT.

The amount of Mr. Gibson's cash performance bonus received for services rendered during the financial year ended December 31, 2004 was based on two criteria. Seventy-five percent of the cash performance bonus was based on the REIT's achievement of a target that was approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee, relating to the actual distributable income per unit of the REIT in comparison to a budgeted distributable income per unit amount. Twenty-five percent of Mr. Gibson's cash performance bonus was based on certain personal performance goals which were approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee.

For the year ended December 31, 2004, the grant of restricted units under the Executive Incentive Plan was based on the same criteria as reflected above in the determination of Mr. Gibson's cash performance bonus. The Board of Trustees concluded, based on the recommendation of the Compensation and Corporate Governance Committee, that these performance measures appropriately reflected Mr. Gibson's contribution to maximizing the long-term value of the REIT.

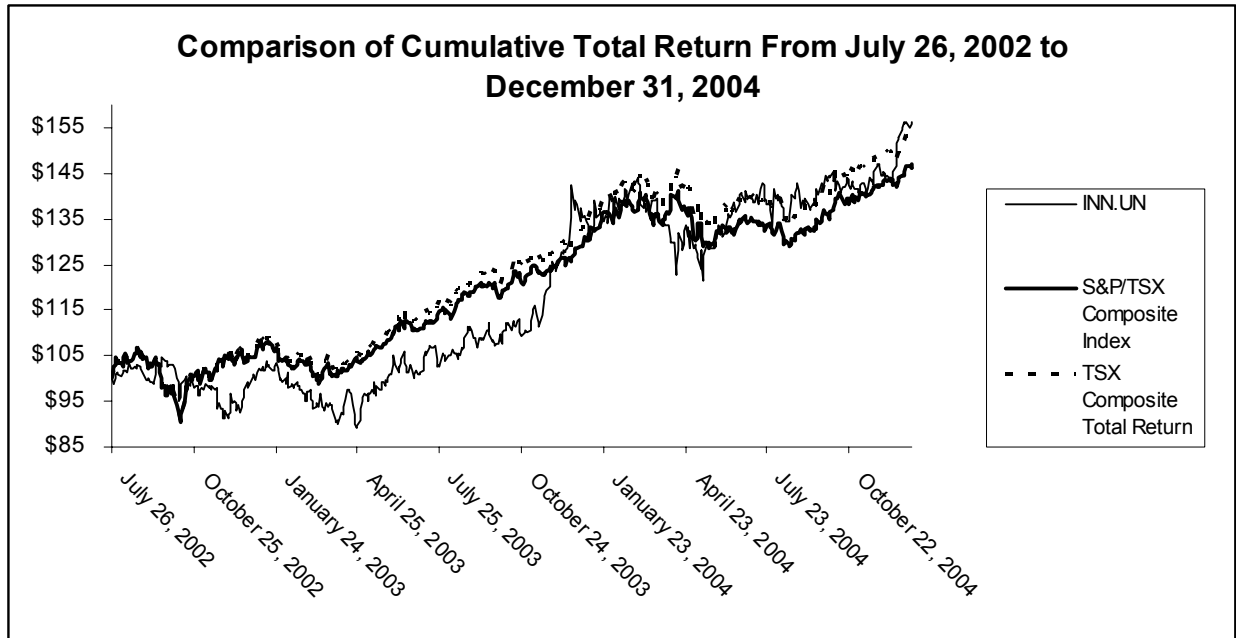
This report is submitted by the members of the Compensation and Corporate Governance Committee.

Morton G. Gross (Chair) Michael P. Kitt

Minhas N. Mohamed

Performance Graph

Since July 26, 2002, the Units of the REIT have been listed and posted for trading on the TSX under the symbol "INN.UN". The following graph compares the cumulative total Unitholder return for \$100 invested in Units of the REIT on January 1, 2004 (assuming distributions are reinvested in units the day of distribution) with the S&P/TSX Composite Index and the TSX Composite Total Return Index for the year ended December 31, 2004.



Audit Committee

Information about the REIT's audit committee, including the full text of the audit committee's charter, information about the composition of the audit committee other information regarding the audit committee's functions and external audit fees, is set out in the REIT's annual information form for the year ended December 31, 2004 under the heading "Audit Committee".

Indebtedness Of Trustees, Executive Officers And Senior Officers

As at the date of this Proxy Circular and during the REIT's financial year ended December 31, 2004, no Executive Officer, Trustee, employee or former Executive Officer, Trustee, proposed nominee for election as Trustee (and each of their associates) or employee of the REIT was indebted to (i) the REIT or any of its subsidiaries, or (ii) any other entity which is, or was at any time during the REIT's financial year ended December 31, 2004, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the REIT or any of its subsidiaries.

Trustees' and Officers' Insurance and Indemnification

The REIT maintains insurance for the benefit of its Trustees and Officers against liability in their respective capacities as Trustees and Officers. The annual premium payable by the REIT in respect of such insurance is \$344,000. There is a per loss deductible of \$250,000, a securities claim deductible of \$250,000, and no deductible for claims under this insurance policy for Trustees and Officers as it relates to non-indemnifiable claims. As of the date of this Proxy Circular, no claim has ever been presented or paid under this policy.

The Declaration of Trust provides that the REIT shall indemnify the Trustees against all liabilities, damages, losses, debts and claims whatsoever, including costs, charges and expenses in connection therewith, incurred by the Trustee in respect of any action to which the Trustee was made a party in relation to the execution of his or her duties as a Trustee, if the Trustee acted honestly and in good faith with a view to the best interests of the REIT or, in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, the Trustee had reasonable grounds for believing that his or her conduct was lawful.

Interest Of Informed Persons in Material Transactions

General

The Declaration of Trust of the REIT 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 *Canada Business Corporations Act*, 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 or entity 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 66²/₃% of the REIT's independent Trustees who have no interest in such transaction.

Hotel Portfolio Acquisition

On March 10, 2004, the REIT announced an agreement in principle to purchase nine mid-market hotel properties consisting of eight Holiday Inn hotels and one Quality Hotel from partnerships affiliated with the Whitehall Funds and the Westmont Group for \$111.5 million plus closing and transaction costs. On April 15, 2004, the REIT completed the acquisition of eight of the nine hotels. The acquisition of the remaining property was completed July 1, 2004. To the REIT's knowledge, the nine hotels purchased by the REIT were acquired by the Promoter in the context of negotiated, arm's length transactions with third party vendors. The acquisition of the nine hotels, including the price paid by the REIT to the affiliates of Whitehall Funds and Westmont Group, was approved by an independent committee of Trustees of the REIT, as described below.

In compliance with their obligations under the Declaration of Trust, the independent Trustees retained an independent appraiser to provide them with an independent valuation of the hotel properties being acquired. The independent Trustees also engaged a financial advisor to undertake certain verification procedures with respect to the acquired properties. In addition, they relied on physical evaluations of each of the hotels conducted by an independent professional engineering firm and Phase 1 environmental site assessments conducted by an independent environmental consulting firm. Lastly, they retained independent legal counsel for the transaction. Upon completion of their assessment and review of the independent valuations, the results of the verification procedures, the physical evaluations and the environmental assessments, and legal advice provided to them, the independent Trustees recommended the approval of, and the Trustees of the REIT unanimously approved, the acquisitions, in accordance with the terms of the Declaration of Trust.

Each of Brian C. Collyer, Lauren J. Zucker and Majid Mangalji (c/o InnVest Real Estate Investment Trust, 5090 Explorer Drive, 7th Floor, Mississauga, Ontario, L4W 4T9) is considered to be interested in the acquisition referred to above. Majid Mangalji is the President of the Westmont Group and Mr. Mangalji is a Trustee of the REIT. Brian C. Collyer is a Vice President in the Real Estate Principal Investment Area of Goldman Sachs & Co. responsible for the management of Whitehall Street Real Estate Funds investments in Europe and Latin America and Mr. Collyer is

a Trustee of the REIT. Lauren J. Zucker is a Vice President in the Real Estate Principal Investment Area at Goldman Sachs & Co. responsible for the management of the Whitehall Street Real Estate Funds in North America and Ms. Zucker is a Trustee of the REIT.

Master Hotel Management Agreement

In connection with the formation of the REIT, a wholly-owned subsidiary of the REIT (the "Operator") entered into the Management Agreement with the Manager (Westmont Hospitality Canada Limited, 5090 Explorer Drive, 7th Floor, Mississauga, Ontario, L4W 4T9), under which the Manager is responsible for the management of each of the hotel businesses in the REIT. 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 Management Agreement has an initial term of 10 years, and expires on July 25, 2012. Thereafter, the agreement is subject to two successive five-year renewal terms, subject to the consent of the Manager and approval by the Operator. If the REIT acquires any additional hotels during the term of the Management Agreement, the Manager will manage such additional hotels in accordance with the Management Agreement for the balance of the term of the agreement.

The 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 REIT's hotel portfolio (the "Portfolio"), calculated and payable monthly. In addition, the Manager will receive an annual incentive fee. The incentive fee shall be equal to the sum of (i) 15% of the amount by which 90% of distributable income of the REIT in any year exceeds the First Incentive Fee Hurdle but is less than or equal to the Second Incentive Fee Hurdle, plus (ii) 20% of the amount by which 90% of distributable income of the REIT exceeds the Second Incentive Fee Hurdle but is less than or equal to the Third Incentive Fee Hurdle, plus (iii) 25% of the amount by which 90% of distributable income of the REIT 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 certain reasonable out-of-pocket costs and expenses incurred by the Manager in the performance of its duties under the Management 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. Majid Mangalji, residing in Wimbledon, England, is the President of the Westmont Group, which is the ultimate parent company of the Manager and Mr. Mangalji is a Trustee of the REIT. In consideration for services rendered in 2004, the Manager was paid approximately \$9.4 million in management fees and approximately \$2.8 million for other services.

To the knowledge of the REIT, the following persons would be "informed persons" (as such term is defined under applicable securities law) of the Manager if the Manager was a reporting issuer: Majid Mangalji (c/o InnVest Real Estate Investment Trust, 5090 Explorer Drive, 7th Floor, Mississauga, Ontario, L4W 4T9). Other than the Management Agreement described above, the REIT has not been involved with any other transactions or arrangements with the Manager or its informed persons since January 1, 2004.

Additional Information

Additional information relating to the REIT is on SEDAR at www.sedar.com. Financial information is provided in the REIT's comparative financial statements and MD&A for the financial year ended December 31, 2004.

Board of Trustees' Approval

The Board of Trustees has approved the contents and the sending of this Proxy Circular to the Unitholders.

Kenneth D. Gibson (signed)

Chief Executive Officer

March 21, 2005

SCHEDULE I

Governance Practices

Regulatory changes to corporate governance are in progress as a result of discussions between the TSX and the Ontario Securities Commission. The REIT continues to monitor these changes and as clarification on each is available, appropriate action will be contemplated.

In this Schedule, the REIT's governance procedures are compared with the TSX Guidelines for improved corporate governance.

TSX Guideline	Does the REIT Align?	The REIT's Governance Procedures
1. The Board of Trustees should explicitly assume responsibility for the stewardship of the REIT and specifically for:	Yes	<p>The Board, either directly or through its committees, is responsible for management and supervision of the business and affairs of the REIT with the objective of enhancing Unitholder value.</p> <p>The Board establishes the overall policies and standards for the REIT. The Board has delegated to management the power to manage the day-to-day business and affairs of the REIT. The Board seeks to ensure that the REIT is managed so as to enhance Unitholder value and to ensure its long-term viability. The Trustees are kept informed of the REIT's operations at Trustees' meetings and committee meetings and through reports and discussions with management. The Board meets on a regularly scheduled basis and, during the year ended December 31, 2004, met on fourteen occasions. In addition, communications between the Trustees and management occur apart from the regularly scheduled Board or committee meetings.</p>
(i) adoption of a strategic planning process;	Yes	<p>The Board is actively involved in the REIT's strategic planning process. The Board reviews the objectives of the senior Executives and provides guidance for the development of the REIT's strategy. The Board frequently discusses the REIT's strategies and their implementation at Board meetings. Management must seek the Board's approval for any transaction that would have a significant impact on the strategic plan of the REIT.</p>
(ii) identification of the principal risks of the REIT's business and ensuring implementation of appropriate systems to manage those risks;	Yes	<p>The Board assumes responsibility for identifying and managing business risks. The Board reviews with management the REIT's principal risks and receives reports of management's assessment of, and proposed responses to, these risks as they develop. This process ensures that the Board as a whole actively and appropriately oversees the management of all significant risks applicable to the REIT's business. In 2003, the REIT engaged an outside advisor to work with management to perform a third party risk assessment and report its findings to</p>

TSX Guideline	Does the REIT Align?	The REIT's Governance Procedures
		<p>management and the Trustees. The report included the identification of the business risks, prioritization of these risks, and the development of an action plan to address the significant risks. This report will be updated from time to time as deemed necessary by the Board of Trustees.</p> <p>The Audit Committee meets regularly to review areas of financial risk. It monitors financial risk and reporting, including controls relating to those areas.</p>
(iii) succession planning, including appointing, training and monitoring senior management;	Yes	<p>The Compensation and Corporate Governance Committee has primary responsibility for considering questions of management succession. The Committee reports to the Board annually on organizational structure and succession planning matters. The Board has primary responsibility for the appointing, development, and monitoring of senior management.</p>
(iv) communications policy; and	Yes	<p>The Board, through its Audit Committee and Compensation and Corporate Governance Committee, is responsible for, and has implemented procedures to ensure, the timely dissemination of all material information. Material disclosure documents such as press releases, management's discussion and analysis, annual reports, annual information forms, quarterly financial statements and proxy circulars are scrutinized and, where required, approved by the Board or one of its committees, in each case before they are publicly disseminated. Unitholders can provide feedback to the REIT in a number of ways, including e-mail or calling a toll-free telephone number.</p> <p>The Board reviews the REIT's communication policies that address how the REIT interacts with the public and certain measures to avoid selective disclosure. In this regard, procedures are in place to provide timely information to investors and potential investors.</p>
(v) integrity of internal control and management information systems.	Yes	<p>The Board, through the appointment of various committees, monitors and assesses the strengths of the REIT's internal control and management information systems. The Audit Committee has the responsibility of reviewing the REIT's procedures for internal control with the REIT's auditors and Chief Financial Officer.</p>
2. A majority of Trustees should be "unrelated".	Yes	<p>Pursuant to the REIT's Declaration of Trust, a majority of the REIT's Trustees must be "unrelated". The Board is currently composed of seven Trustees. Each of the independent nominees standing for</p>

TSX Guideline	Does the REIT Align?	The REIT's Governance Procedures
		<p>election to the Board as disclosed in this Proxy Circular is "unrelated" within the meaning of the TSX Guidelines. Messrs. Majid Mangalji and Brian Collyer and Ms. Lauren Zucker are the only Trustees who are "related" to the REIT. The Board believes that the current independent Trustees provide appropriate independent representation for the Unitholders of the REIT.</p> <p>Pursuant to the Declaration of Trust, there are certain matters which require the approval of a majority of the "unrelated" Trustees to become effective, including the following:</p> <ul style="list-style-type: none"> • to enter into any agreement or transaction in which a related party has a material interest; • to make a material change to or renew the REIT's Management Agreement or Administrative Services Agreement, change the fees payable to the Manager or appoint a substitute for the Manager; • to increase the number of Trustees by no more than one-third in accordance with the Declaration of Trust of the REIT and to fill vacancies; and • 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.
<p>3. The Board has responsibility for applying the definition of "unrelated Trustee" to each individual Trustee and for disclosing annually the analysis of the application of the principles supporting this definition and whether the Board has a majority of unrelated Trustees.</p>	<p>Yes</p>	<p>The Board is responsible for determining whether or not each Trustee is an "unrelated Trustee". Based on information provided by Trustees as to their individual circumstances, the Board has determined that each of the independent nominees standing for election to the Board for 2005 is "unrelated" to the REIT. Only Messrs. Majid Mangalji and Brian Collyer and Ms. Lauren Zucker are "related" Trustees within the meaning of the TSX Guidelines.</p>
<p>4. The Board should appoint a committee of Trustees composed exclusively of outside Trustees, a majority of whom are unrelated, with responsibility for proposing new nominees to the Board and assessing Trustees on an ongoing basis.</p>	<p>Yes</p>	<p>The REIT does not have a nominating committee. The Compensation and Corporate Governance Committee is responsible for identifying and recommending to the Board suitable candidates for election to the Board. In undertaking this responsibility, the Committee annually assesses the skill-sets of the existing Board and its committees, and identifies any additional skill-sets deemed to be</p>

TSX Guideline	Does the REIT Align?	The REIT's Governance Procedures
		<p>beneficial.</p> <p>The Compensation and Corporate Governance Committee is composed exclusively of non-management Trustees, all of whom are "unrelated". The Declaration of Trust provides that all of the members of this Committee must be independent Trustees.</p> <p>The Board of Trustees annually completes a Board Effectiveness Survey along with a Trustee Peer Feedback Survey. These surveys were based on guidelines provided by the Canadian Coalition for Good Governance, a not-for-profit corporation made up of institutional investors. The document has been endorsed by the Toronto Stock Exchange, and assists the Board of Trustees in the monitoring of Board effectiveness.</p>
<p>5. The Board should implement a process, to be carried out by an appropriate committee, for assessing the effectiveness of the Board, its committees and individual Trustees.</p>	<p>Yes</p>	<p>The Compensation and Corporate Governance Committee conducts an annual evaluation of the effectiveness of the Board and its committees. In such evaluation, the Committee assesses the operation of the Board and its committees, the adequacy of information provided to Trustees, communication processes between the Board and management, agenda planning for Board and Committee meetings, and strategic planning.</p>
<p>6. The Board should provide orientation and education programs for new Trustees.</p>	<p>Yes</p>	<p>No new Board members have been added since the inception of the REIT. In the event of new Board members being added, the Board intends to provide new members with an orientation. The REIT will provide its new Trustees with a program that focuses on the corporate governance system, including roles, responsibilities and liabilities of Trustees. Reports relating to the REIT's business and affairs are provided to Trustees on a regular basis.</p>
<p>7. The Board should examine its size and undertake, where appropriate, a program to establish a Board size which facilitates effective decision-making.</p>	<p>Yes</p>	<p>The Declaration of Trust states that there shall be no fewer than five and no more than nine Trustees which number may be changed by the Unitholders of the REIT or by the Trustees themselves (if authorized by the Unitholders). At the annual meeting on May 18, 2005, four nominees will stand for election for a one-year term and the three Trustees collectively appointed by the Westmont Group and the Whitehall Funds will continue to hold office until such Trustees resign or are replaced by the Westmont Group or Whitehall Funds, as applicable. The matter of Board size is considered formally on an annual basis by the Board and on an ongoing basis by the Compensation and Corporate Governance Committee. In considering Board size, the Board balances the opposing needs of keeping</p>

TSX Guideline	Does the REIT Align?	The REIT's Governance Procedures
		the Board size small enough to facilitate open and effective dialogue and decision-making and ensuring there is adequate representation to meet the demands of Board and committee work. The Board is of the view that the current membership has the necessary breadth and diversity of experience and its size is appropriate to provide for effective decision-making and staffing of Board committees.
8. The Board should review the adequacy and form of compensation of the Trustees in light of risks and responsibilities involved in being a Trustee.	Yes	The compensation of the Trustees is prescribed by the Declaration of Trust and may only be changed by the unanimous consent of the Trustees. The Compensation and Corporate Governance Committee annually reviews the level and nature of compensation paid to the Trustees. In making recommendations to the Board for appropriate adjustments, the Committee considers the time commitment and risk and responsibilities of serving as a Trustee of the REIT, and seeks to align the interests of the Trustees and Unitholders of the REIT.
9. Committees of the Board should generally be composed of outside Trustees, a majority of whom are unrelated.	Yes	The Compensation and Corporate Governance Committee and Audit Committee are composed solely of non-management Trustees who are "unrelated". The Investment Committee is composed of all of the Trustees and thus has a majority of unrelated members.
10. The Board should assume responsibility for, or assign to a committee of Trustees responsibility for, developing the approach to corporate governance issues. This committee would, among other things, be responsible for the response to the TSX Guidelines.	Yes	The Compensation and Corporate Governance Committee annually reviews the REIT's corporate governance practices. The Committee advises and assists the Board in applying governance principles and practices and tracks developments in corporate governance, adapting best practices to the needs and circumstances of the REIT. The Board and the Compensation and Corporate Governance Committee have reviewed the REIT's response to the TSX Guidelines.
11. The Board of Trustees, together with the Chief Executive Officer, should develop position descriptions for the Board and the Chief Executive Officer involving the definition of the limits to management's responsibility. In addition, the Board should approve or develop the corporate objectives which the Chief Executive Officer is responsible for meeting.	Yes	The Declaration of Trust provides that the Board has full, absolute and exclusive power, control and authority over the REIT's assets and over the affairs of the REIT and may do anything that in its sole judgment and discretion it considers necessary, incidental to or desirable for the purposes of the REIT or for conducting the affairs of the REIT. The Board acts in a supervisory role and any responsibilities not delegated to management or a Board committee remain with the full Board. The scope of the Board's supervisory role expressly includes such matters as the strategic planning

TSX Guideline	Does the REIT Align?	The REIT's Governance Procedures
		<p>process, identification and management of risk, succession planning, internal controls and governance. To support it in its supervisory role, the Board expects management, among other things, to:</p> <ul style="list-style-type: none"> • undertake an ongoing review of the REIT's strategies and their implementation in light of evolving conditions; • present an annual operating plan and regularly report on the REIT's performance and results relative to such plan; • report regularly on the REIT's business and affairs, with a focus on matters of material consequence for the REIT and its Unitholders; • implement systems to identify and manage the principal risks of the REIT's business; and • implement and maintain appropriate systems of internal control. <p>A position description for the Chief Executive Officer is set out in the terms of his employment agreement. The Chief Executive Officer's objectives are reviewed by the Board from time to time. These objectives include the general mandate to manage the REIT and to maximize Unitholder value. The limits to management's responsibilities are defined by the Board. This is accomplished both by specifically identifying the role and responsibilities of the Chief Executive Officer and specifying that all material decisions relating to the business and operations of the REIT are to be made by the Board or one of its committees.</p>
12. The Board should implement structures and procedures to ensure that it can function independently of management.	Yes	The Board and its committees meet independently of management when needed.
13. The Audit Committee should be composed entirely of "unrelated" Trustees. The roles and responsibilities of the Audit Committee should be specifically defined so as to provide appropriate guidance to Audit Committee members as to their duties. The Audit Committee should have direct communication channels with the internal and the external auditors to discuss and review specific	Yes	<p>The Audit Committee is composed solely of "unrelated" Trustees. All members of the Audit Committee are "financially literate", as two members are Chartered Accountants, and one member has considerable business and financial expertise.</p> <p>The roles and responsibilities of the Audit Committee which are summarized on page 8 of this Proxy Circular are contained in a mandate, the text of which is included in the REIT's AIF for the financial year ended December 31, 2004. Through the Committee, the Board has a means of monitoring and assessing the strength of the REIT's internal</p>

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<p>issues as appropriate. The Audit Committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the Audit Committee to ensure that management has done so.</p>		<p>control and management information systems.</p> <p>The Audit Committee meets separately (without management present) with the REIT's auditors and discusses with them the financial statements and other financial issues as deemed appropriate.</p>
<p>14. The Board should implement a system to enable an individual Trustee to engage an outside advisor, at the REIT's expense, in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the Board.</p>	<p>Yes</p>	<p>Individual Trustees may, with the approval of the Compensation and Corporate Governance Committee, engage outside advisors at the expense of the REIT.</p>