2004 Second Quarter Report to Unitholders
for the three and six months ended June 30, 2004

InnVest
R · E · I · T

LETTER TO UNITHOLDERS

InnVest's portfolio of hotels demonstrated continued RevPAR improvement in the second quarter versus last year, with a strong recovery in our Greater Toronto Area hotels. While we are pleased with the continued improvement we are experiencing, there are several markets which have been impacted by a reduction in U.S. tourist activity and other specific market factors. We are taking the necessary actions to counteract this development with stepped up sales and marketing programs which target local travelers.

In early April 2004, InnVest finalized the acquisition of nine hotels with 1,528 rooms, eight of which are Holiday Inns with six located in Ontario, one in Alberta, and one in Nova Scotia, and one Quality Hotel located in Saskatchewan. The total purchase price for the nine hotels was $106.9 million plus transaction costs, and this was funded through the issuance of trust units, convertible debentures and through an additional credit facility in the form of long-term mortgage debt. A further hotel acquisition, a 193-room Holiday Inn located in Oshawa, Ontario, was finalized early in the third quarter.

For the quarter, InnVest's revenue per available room ("RevPAR") improved by 9.2% as RevPAR increased from $49.82 last year to $54.39 this year. This was due to posting occupancy of 63.8%, which is 4.6% higher than the quarter in the prior year reflecting stronger demand, along with our average daily rate ("ADR") increasing $3.65 or 4.5% over the same quarter in the prior year.

Continuing with its strategy of investing in its hotels, InnVest deployed approximately $5.7 million for capital asset improvements during the second quarter. For 2004, it is forecasted that InnVest will spend approximately $14.0 million in total on such improvements, $3.0 million of which relates to our newly acquired hotels.

We continue to pursue new acquisitions. We are well positioned to identify attractive acquisition candidates and have significant unutilized capacity to make acquisitions that are accretive to cash flow and demonstrate long-term value.

Overall, the REIT continues to improve on a quarterly basis. We are taking the necessary actions to maximize results in the short term while continuing to execute on our strategy to build value over the longer term.

FINANCIAL REVIEW

Room revenues for the three months ended June 30, 2004 were $64.3 million, $11.9 million or 22.8% higher than the $52.4 million generated for the same period in 2003. The improvement primarily reflects our acquired hotels which provided $9.6 million in additional room revenue. The remaining $2.3 million reflects the increase in room revenues in our original portfolio. Substantially all of this increase was experienced in our Greater Toronto Area ("GTA") hotels.

Hotel expenses for the three months ended June 30, 2004 increased by $12.2 million or 34.4% compared to the previous year. This primarily reflects an increase of $10.4 million due to the acquired hotels. A $1.8 million increase relates to our original portfolio and represents increases due to increased occupancy, the implementation of a new property management system at approximately 40 hotels, marketing loyalty programs, and property taxes.

InnVest's net income for the three months ended June 30, 2004 was $9.7 million or $0.148 per unit – basic (diluted – $0.148), compared with net income for the three months ended June 30, 2003 of $6.9 million or $0.120 per unit – basic (diluted – $0.120). The variance of $2.8 million is primarily a result of higher hotel operating income of $4.0 million partially offset by increases in other expenses of $2.0 million, along with improvements in current income tax expense.

Distributable income for the three months ended June 30, 2004 was $12.2 million or $0.269 per unit – basic (diluted – $0.262). This reflects a $2.2 million increase from the distributable income achieved for the three months ended June 30, 2003 of $10.0 million or $0.244 per unit – basic (diluted – $0.244). The improvement is primarily due to the increase in net income, higher depreciation and amortization of $1.3 million which is added in arriving at distributable income offset by higher FF&E reserves and convertible debenture interest which is deducted in calculating distributable income.

At June 30, 2004, InnVest's cash totaled $45.4 million ($28.2 million unrestricted and $17.2 million restricted for replacement of furniture, fixture and equipment and capital improvements) and financial leverage is at 37.7% debt to gross asset value (defined as total assets before accumulated depreciation less future income tax liability) excluding convertible debentures and 51.5% including convertible debentures.

OUTLOOK

The recovery in the Canadian hotel industry is continuing albeit at a slower pace than expected. The recovery is reflected in the 4.9% improvement in RevPAR experienced by InnVest during the quarter on a same hotel basis. While we had expected greater RevPAR improvement in the quarter, U.S. travel and tourism into Canada has lagged behind expectations. This decrease in demand has been felt in our Quebec and Atlantic hotels which typically have strong U.S. tourist demand in the summer months. Since we expect that this trend will continue during the remaining summer months, our focus is to target local travellers to a greater extent through stepped up sales and marketing programs.

Kenneth Gibson
President and Chief Executive Officer
August 11, 2004

The following is a discussion of the results of operations and financial condition of InnVest Real Estate Investment Trust ("InnVest" or the "REIT") for the three and six months ended June 30, 2004, with a comparison to the results of operations of InnVest for the three and six months ended June 30, 2003.

The following management's discussion and analysis is dated August 5, 2004 and should be read in conjunction with the unaudited consolidated financial statements of the REIT and the notes thereto as at and for the three and six months ended June 30, 2004 and the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2003.

The financial statements of InnVest are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. Data in tabular form and in the text, unless otherwise indicated, are in thousands of dollars, except for per unit, Average Daily Rate ("ADR"), and Revenue per Available Room ("RevPAR") amounts.

Additional information relating to the REIT, including the REIT's annual information form, can be found at www.sedar.com.

SECOND QUARTER HIGHLIGHTS AND RECENT DEVELOPMENTS

* RevPAR growth in the second quarter for the original portfolio of 114 hotels and the 9 acquired hotels were 4.4% and 7.9% respectively above the same period in 2003;
* Experienced year-over-year revenue growth in each month in the quarter, bringing the number of consecutive months of growth to four, after twelve straight months of revenue decline;
* Distributable income grew to $12.2 million an increase of $2.2 million in the same quarter of the previous year. Distributable income per unit grew to $0.262 from $0.244 on a diluted basis;
* In April 2004, acquired nine hotel properties, eight Holiday Inn hotels and one Quality Hotel. In July 2004, acquired the Holiday Inn hotel in Oshawa, Ontario, which was partially financed by a $6.5 million advance in long-term mortgage financing; and
* Deployed $5.7 million on capital expenditures. Cash reserves for future capital expenditures is $17.2 million including $6.1 million for the acquired hotels.

DESCRIPTION OF INNVEST REIT

OBJECTIVES OF INNVEST

InnVest was established with two objectives: (1) to provide stable and growing cash distributions to Unitholders, and (2) to maximize the long-term value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are expected to be accretive to earnings and cash flow.

OPERATIONS OVERVIEW

InnVest is comprised of: (1) Canada's largest portfolio of hotels, measured by the number of hotels and number of guest rooms, with locations in every province; and (2) a 50% interest in Choice Hotels Canada Inc. ("Choice Canada"), the largest franchisor of hotels in Canada.

Hotel Ownership

Hotels can be categorized by service level and by market positioning. First, there are limited service and full service hotels. Limited service hotels generate a substantial portion of their revenues from guest room rentals, generally providing only limited food and beverage or other ancillary services. They tend to target more price-sensitive customers. Full service hotels typically offer a wider range of services including restaurants, lounges, meeting facilities, and often business centres, fitness centres, and more. As a result, full service hotels have higher fixed costs than limited service properties.

The second categorization reflects the market positioning (price-point) of the property. The most basic hotels (and motels) are in the budget sector. Moving up in price there are the economy, mid-scale without food and beverage ("F&B"), mid-scale with F&B, upscale and luxury categories. The budget, economy and mid-scale without F&B categories combine to form the

limited service category. The REIT's hotels are primarily in the mid-scale without F&B category, and recent acquisitions have added nine hotels in the mid-scale with F&B to InnVest's portfolio with a growing number of hotels in the mid-scale with F&B category.

As of August 5, 2004, and after the acquisition of one hotel in July 2004, InnVest owns 124 internationally branded limited service and mid-scale with food and beverage hotels, located in every province of Canada (the "hotel portfolio"). The hotel portfolio includes 100 hotels flagged with Choice brands (Comfort Inn®, Quality Inn®, Quality Hotel® and Quality Suites®), 13 Travelodge® hotels, 10 Holiday Inn® hotels and one Best Western® hotel. The chart below summarizes InnVest's brand distribution as at June 30, 2004 and as at August 5, 2004 to reflect the hotel acquired in July 2004.

	As at June 30, 2004			As at August 5, 2004		
Brands	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms
Comfort Inn	84	6,747	51.6%	84	6,747	50.8%
Travelodge	13	2,118	16.2%	13	2,118	16.0%
Holiday Inn	8	1,402	10.7%	9	1,595	12.0%
Quality Hotel	8	1,423	10.9%	8	1,423	10.7%
Quality Suites/Inn	8	1,096	8.4%	8	1,096	8.3%
Holiday Inn Express	1	163	1.2%	1	163	1.2%
Best Western	1	130	1.0%	1	130	1.0%
	123	13,079	100.0%	124	13,272	100.0%

A considerable amount of each brand's business is generated through the franchise company's central reservation system. For the six-month period ended June 30, 2004, for the REIT's Choice branded hotels, which represent the majority of the hotel portfolio, the central reservation system generated 22.3% of the business of Comfort Inns, and 25.3% of the business of Quality Hotels and Suites.

Geographically, the REIT's guest rooms are concentrated in Ontario and Quebec (together representing 72% of guest rooms as of June 30, 2004) where the majority of Canada's population and business activity is located, with the balance of properties in population centres in the Atlantic and Western provinces. A summary of the geographic distribution by brand as at June 30, 2004 is as follows:

Brand distribution by geographic region
As at June 30, 2004

	Ontario			Quebec			Atlantic			Western		
	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms
Comfort Inn	37	3,093	23.6%	22	1,754	13.4%	16	1,155	8.8%	9	745	5.7%
Travelodge	8	1,041	8.0%	–	–	–	–	–	–	5	1,077	8.2%
Holiday Inn	6	1,054	8.1%	–	–	–	1	196	1.5%	1	152	1.2%
Quality Hotel	4	839	6.4%	2	298	2.3%	1	160	1.2%	1	126	1.0%
Quality Suites/Inn	4	604	4.6%	4	492	3.8%	–	–	–	–	–	–
Holiday Inn Express	1	163	1.2%	–	–	–	–	–	–	–	–	–
Best Western	1	130	1.0%	–	–	–	–	–	–	–	–	–
	61	6,924	52.9%	28	2,544	19.5%	18	1,511	11.6%	16	2,100	16.0%

The REIT's geographic distribution did not change significantly as a result of the 193-room Holiday Inn – Oshawa, Ontario being acquired in July 2004. The hotels are typically located near major thoroughfares in urban and suburban areas, near demand generators such as business centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business travelers, leisure travelers, groups, organizations and corporate clients.

Franchise Business

InnVest owns 50% of Choice Canada which has franchise agreements with approximately 270 locations open or under development in Canada and more than 23,000 guest rooms. The other 50% is owned by Choice Hotels International Inc. ("Choice International"), which is one of the largest hotel franchise companies in the world. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs, and proprietary property management systems.

Choice Canada earns franchise revenues by charging monthly royalty fees to hotel owners based on a percentage of the revenue generated by the licenced properties and by selling franchises. In 1993 Choice Canada was granted a 99-year licence to franchise all Choice hotel brand names in Canada.

BUSINESS STRATEGY

Operating Strategy

InnVest's operating strategy is to continue to enhance the performance of the hotel portfolio. The manager of the hotel portfolio is Westmont Hospitality Management Canada Limited ("Westmont"), one of the largest privately held owner/operators of hotels in the world. InnVest, through its hotel manager applies four main operating and strategic principles to maximize efficiencies and internal growth: (1) maximizing the performance of each individual hotel; (2) utilizing yield management and market strategies to maximize RevPAR; (3) improving operating efficiencies and economies of scale; and (4) continually maintaining the quality of the portfolio.

Westmont has approximately eight years remaining on a 10-year master hotel management agreement to manage InnVest's hotel portfolio and is subject to non-competitive arrangements.

Acquisition Strategy

InnVest will seek to increase cash flow and enhance unit value through selective acquisitions that are expected to be accretive to earnings and cash flow.

To further diversify its hotel portfolio and to capitalize on a continued strengthening of the hotel market, InnVest expanded its focus on the mid-scale with food and beverage sector through the execution of two transactions. The first transaction was the acquisition of the 196-room Holiday Inn Dartmouth, Nova Scotia, which closed on April 5, 2004. The second transaction was a portfolio acquisition that was comprised of nine hotels with 1,525 rooms, seven of which are Holiday Inns located in Ontario, one of which is a Holiday Inn located in Calgary, Alberta and one being a Quality Hotel located in Regina, Saskatchewan. This transaction closed in two stages. Eight hotels were acquired on April 7, 2004 and the ninth hotel acquisition was acquired on July 2, 2004. This acquisition was funded through the April 2, 2004 issuance of trust units and convertible debentures and through the issuance of long-term debt. The nine hotels that were acquired in the second quarter are hereafter referred to as the "acquired hotels".

Based on 2003 actual results and the REIT's expectation of growth in 2004, both acquisitions are expected to be immediately accretive to distributable income. The acquired hotels have been integrated into InnVest seamlessly given that an affiliate of Westmont previously managed the hotels and little change in the management structure has occurred.

Each of the vendors of the acquired hotels are considered a related party of the REIT as defined in the Declaration of Trust of the REIT. As a result, the Trustees of the REIT established an independent committee comprised of the REIT's Independent Trustees as defined in the Declaration of Trust to assess the transaction. The independent committee retained its own legal counsel for the purpose of this assessment.

In compliance with their obligations under the Declaration of Trust, the Independent Trustees retained various independent third party professionals whom they relied upon in their assessment including an appraiser, financial advisor, structural engineer and environmental consultant. Upon completion of their assessment and review of the reports prepared by the independent third party professionals, the Independent Trustees recommended the approval of, and the trustees of the REIT unanimously approved, the acquisitions.

COMPETITIVE STRENGTHS

InnVest has a number of competitive strengths which should enable it to carry out its business and acquisition strategies:

- With Canada's largest hotel portfolio, it plans to continue to leverage its size and scale to achieve operating efficiencies, through centralized purchasing and other functions;
- The strength of its international brands brings name recognition, central reservation systems, marketing and customer loyalty programs and quality standards;
- The 50% ownership interest in Choice Canada brings favourable franchise terms, the benefits of being a franchisor, including the right to participate in the maintenance and enforcement of operating standards across the entire portfolio of hotels in Canada, in the approval of any new Choice-branded hotels in Canada and in the removal of any defaulting franchisees;
- Westmont's professional management and extensive experience in Canada and international markets enables InnVest to maximize its performance;
- The geographic and customer diversity offset regional and industry sector cyclicality; and
- InnVest has a balanced capital structure, supporting its growth strategy while mitigating risks.

CANADIAN HOTEL MARKET OVERVIEW

Thus far in 2004, the Canadian hotel industry, and consequently InnVest, continued to recover from the unusual events that occurred in 2003. According to Pannell Kerr Forster, the majority of regional markets have posted gains over the previous year, led by the Greater Toronto Area ("GTA") which has experience RevPAR gains of 18.6% year-to-date May 2004 versus the prior year. Other markets showing solid RevPAR growth include London (+16.3%), Calgary (+11.2%), New Brunswick (+7.1%), and Chilliwack (+21.7%). As is often the case, while some markets are particularly strong, others are experiencing challenges, such as Windsor where RevPAR is off 8.2% due to strikes and border crossing slow-downs. However, InnVest's geographic diversification helps mitigate the risk of fluctuations in regional markets.

One key factor fuelling continued strength in the hotel market is the limited growth in room supply that is anticipated. Supply is expected to grow at only 1% annually in 2004 and 2005. As demand rebounds and returns to more normal levels, this will drive higher occupancies and provide potential for increased room rates.

FINANCIAL PERFORMANCE REVIEW

In reviewing the performance of InnVest, a comparison of the results of operations for the three and six months ended June 30, 2004 is being made to the results of operations for the comparable period in 2003. Hotel operating results on a quarterly basis are unaudited. InnVest's results through to net income and distributable income are compared on a quarterly basis starting with the period ended September 30, 2002, as the REIT began its operations on July 26, 2002.

Financial Highlights Summary

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Hotel revenues	**$ 72,498**	$ 56,318	**$ 119,011**	$ 103,623
Hotel expenses	**47,572**	35,402	**82,626**	70,751
Hotel operating income	**24,926**	20,916	**36,385**	32,872
Net income	**$ 9,695**	$ 6,914	**$ 6,827**	$ 4,560
Net income per unit				
– basic	**$ 0.148**	$ 0.120	**$ 0.044**	$ 0.014
– diluted	**$ 0.148**	$ 0.120	**$ 0.044**	$ 0.014
Net income	**$ 9,695**	$ 6,914	**$ 6,827**	$ 4,560
Add / (deduct)				
Depreciation and amortization(1)	**8,895**	7,661	**16,748**	15,259
Future income tax recovery	**(990)**	(542)	**(1,616)**	(1,084)
Non-cash executive and trustee compensation	**72**	42	**144**	144
Funds from operations(2)	**$ 17,672**	$ 14,075	**$ 22,103**	$ 18,879
Funds from operations per unit(3)				
– basic	**$ 0.329**	$ 0.343	**$ 0.405**	$ 0.460
– diluted	**$ 0.311**	$ 0.290	**$ 0.405**	$ 0.388
Funds from operations	**$ 17,672**	$ 14,075	**$ 22,103**	$ 18,879
Amortization of fair value debt adjustment	**(342)**	(341)	**(684)**	(682)
Amortization of deferred financing and other assets	**477**	366	**852**	732
Reserve for replacement of furniture, fixtures and equipment and capital improvements ("FF&E Reserve")	**(2,900)**	(2,253)	**(4,760)**	(4,145)
Convertible debentures interest	**(2,700)**	(1,828)	**(4,525)**	(3,656)
Distributable income(2)	**$ 12,207**	$ 10,019	**$ 12,986**	$ 11,128
Distributable income per unit(3)				
– basic	**$ 0.269**	$ 0.244	**$ 0.299**	$ 0.271
– diluted	**$ 0.262**	$ 0.244	**$ 0.299**	$ 0.271
Distributions(4)	**$ 12,813**	$ 11,556	**$ 24,432**	$ 23,109
Distributions – per unit(4)	**$ 0.2813**	$ 0.2813	**$ 0.5625**	$ 0.5625

(1) For purposes of the calculation of funds from operations, amortization of deferred financing and other assets is excluded from depreciation and amortization.

(2) Funds from operations and distributable income are measures of earnings and cash flow commonly used by industry analysts that are not required under Canadian generally accepted accounting principles, and accordingly, may not be comparable to similar measures used by other organizations.

(3) Funds from operations per unit and distributable income per unit have been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

(4) Distributions and distributions per unit include cash distributions and distributions arising from the Distribution Reinvestment Plan.

KEY PERFORMANCE INDICATORS

The key measures that indicate the performance of the hotel industry and the relative strength of participants in the industry are Occupancy, ADR and RevPAR.

Original 114 Properties

The key performance indicators for the REIT's original hotel portfolio, which excludes the acquired hotels, by geographic region in Canada for the three and six months ended June 30, 2004 and the comparable periods are as follows:

	Three months Ended June 30			Six months Ended June 30		
	2004	2003	Var %	**2004**	2003	Var %
Occupancy						
Ontario	**63.7%**	57.6%	10.6%	**58.8%**	56.1%	4.8 %
Quebec	**65.8%**	68.4%	(3.8%)	**60.7%**	63.3%	(4.1%)
Atlantic	**65.0%**	66.2%	(1.8%)	**58.6%**	59.5%	(1.5%)
Western	**57.5%**	58.0%	(0.9%)	**52.2%**	51.3%	1.8 %
Total	**63.3%**	61.0%	3.8 %	**58.1%**	57.3%	1.4 %
ADR						
Ontario	**$ 84.29**	$ 84.62	(0.4%)	**$ 82.75**	$ 83.49	(0.9%)
Quebec	**$ 87.20**	$ 86.58	0.7 %	**$ 83.72**	$ 83.52	0.2 %
Atlantic	**$ 80.20**	$ 79.29	1.1 %	**$ 75.63**	$ 74.74	1.2 %
Western	**$ 68.03**	$ 66.07	3.0 %	**$ 66.58**	$ 65.10	2.3 %
Total	**$ 82.15**	$ 81.67	0.6 %	**$ 79.87**	$ 79.87	–
RevPAR						
Ontario	**$ 53.69**	$ 48.71	10.2 %	**$ 48.64**	$ 46.83	3.9 %
Quebec	**$ 57.35**	$ 59.21	(3.2%)	**$ 50.81**	$ 52.84	(3.8%)
Atlantic	**$ 52.09**	$ 52.51	(0.8%)	**$ 44.33**	$ 44.50	(0.4%)
Western	**$ 39.11**	$ 38.30	2.1 %	**$ 34.75**	$ 33.41	4.0 %
Total	**$ 52.01**	$ 49.82	4.4 %	**$ 46.43**	$ 45.77	1.4 %

The original portfolio's room revenues for the three months ended June 30, 2004 were $54.7 million, $2.3 million or 4.4% higher than the $52.4 million generated for the same period in 2003. This increase was due to an increase in occupancy of 2.3% points (3.8%), and a modest increase in ADR of $0.48 (0.6%) for a RevPAR increase of 4.4%. Geographically, the improvement in room revenues can be primarily attributed to an improvement in our Ontario region hotels and to a lesser extent our Western region hotels, which are offset by declines in our Quebec and Atlantic regions. The main market which contributed positively to our improvement were our Greater Toronto Area ("GTA") hotels. The main markets which contributed negatively to our improvement were Montreal, Windsor, and Ottawa. Our Montreal hotels are experiencing a decline in tourism due to a decrease in U.S. tourists, and a lack of city-wide convention activity at the Montreal Convention Centre. Our Windsor hotels are experiencing a decline due to a strike by the employees of the Casino Windsor, which significantly affected the casino's operations, while our Ottawa hotels suffered as a result of declines in government travel, demand in business travel and in U.S. travelers.

Acquired Hotels

The REIT acquired nine hotels in the quarter assuming ownership of one hotel on April 5, 2004 and assuming ownership of the remaining eight hotels on April 7, 2004. As a result, the hotels did not experience one full quarter under InnVest REIT's ownership. The key performance indicators for the REIT's recently acquired eight Holiday Inns and one Quality Inn, of which six hotels are located in Ontario, two hotels are located in Western Canada, and one hotel is located in Atlantic Canada, for the period ended June 30, 2004 (which does not reflect a full quarter) are as follows:

Period Ended June 30	**2004**	2003(1)	Var %
Occupancy	**66.9%**	62.2%	7.6%
ADR	**$ 110.01**	$ 109.64	0.3%
RevPAR	**$ 73.55**	$ 68.15	7.9%

(1) The hotels were not owned by the REIT in 2003.

The acquired hotels experienced strong growth in occupancy levels relative to the prior year of 7.6%, and a modest improvement in ADR of 0.3% which has resulted in a RevPAR improvement of 7.9%.

REGIONAL OPERATING RESULTS COMPARISON

The following charts show the regional operating results for the original portfolio of hotels by region along with the additional properties which were acquired for the three and six months ended June 30, 2004:

For the Three Months	Ontario		Quebec		Atlantic		Western		Acquired hotels(1)		Total(2)	
Ended June 30	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Occupancy	**63.7%**	57.6%	**65.8%**	68.4%	**65.0%**	66.2%	**57.5%**	58.0%	**66.9%**	62.2%	**63.8%**	61.1%
ADR	**$ 84.29**	$ 84.62	**$ 87.20**	$ 86.58	**$ 80.20**	$ 79.29	**$ 68.03**	$ 66.07	**$ 110.01**	$ 109.6	**$ 85.32**	$ 84.82
RevPAR	**$ 53.69**	$ 48.71	**$ 57.35**	$ 59.21	**$ 52.09**	$ 52.51	**$ 39.11**	$ 38.30	**$ 73.55**	$ 68.15	**$ 54.39**	$ 51.84
Room revenues	**$ 28,677**	$ 26,021	**$ 13,276**	$ 13,708	**$ 6,234**	$ 6,283	**$ 6,485**	$ 6,351	**$ 9,611**	$ 8,905	**$ 64,283**	$ 61,268
Total revenues	**$ 31,044**	$ 28,261	**$ 14,075**	$ 14,656	**$ 6,456**	$ 6,515	**$ 6,985**	$ 6,886	**$ 13,938**	$ 13,143	**$ 72,498**	$ 69,461
Hotel operating expenses and management fees	**$ 16,254**	$ 14,894	**$ 7,482**	$ 7,481	**$ 3,194**	$ 3,114	**$ 4,104**	$ 4,057	**$ 9,396**	$ 8,942	**$ 40,430**	$ 38,488
Gross operating profit	**$ 14,790**	$ 13,367	**$ 6,593**	$ 7,175	**$ 3,262**	$ 3,401	**$ 2,881**	$ 2,829	**$ 4,542**	$ 4,201	**$ 32,068**	$ 30,973
GOP margin	**47.6%**	47.3%	**46.8%**	49.0%	**50.5%**	52.2%	**41.2%**	41.1%	**32.6%**	32.0%	**44.2%**	44.6%
Property taxes, rent and insurance	**$ 3,676**	$ 3,599	**$ 1,295**	$ 1,176	**$ 508**	$ 496	**$ 634**	$ 585	**$ 1,029**	$ 1,346	**$ 7,142**	$ 7,202
Hotel operating income	**$ 11,114**	$ 9,768	**$ 5,298**	$ 5,999	**$ 2,754**	$ 2,905	**$ 2,247**	$ 2,244	**$ 3,513**	$ 2,855	**$ 24,926**	$ 23,771
HOI margin	**35.8%**	34.6%	**37.6%**	40.9%	**42.7%**	44.6%	**32.2%**	32.6%	**25.2%**	21.7%	**34.4%**	34.2%

For the Six Months	Ontario		Quebec		Atlantic		Western		Acquired hotels(1)		Total(2)	
Ended June 30	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Occupancy	**58.8%**	56.1%	**60.7%**	63.3%	**58.6%**	59.5%	**52.2%**	51.3%	**66.9%**	62.2%	**58.7%**	57.6%
ADR	**$ 82.75**	$ 83.49	**$ 83.72**	$ 83.52	**$ 75.63**	$ 74.74	**$ 66.58**	$ 65.10	**$ 110.01**	$ 109.64	**$ 81.84**	$ 83.40
RevPAR	**$ 48.64**	$ 46.83	**$ 50.81**	$ 52.84	**$ 44.33**	$ 44.50	**$ 34.75**	$ 33.41	**$ 73.55**	$ 68.15	**$ 48.02**	$ 48.28
Room revenues	**$ 51,960**	$ 49,755	**$ 23,526**	$ 24,331	**$ 10,608**	$ 10,592	**$ 11,525**	$ 11,019	**$ 9,611**	$ 8,905	**$ 107,230**	$104,602
Total revenues	**$ 56,507**	$ 54,426	**$ 25,080**	$ 26,164	**$ 11,039**	$ 11,037	**$ 12,447**	$ 11,996	**$ 13,938**	$ 13,143	**$ 119,011**	$116,766
Hotel operating expenses and management fees	**$ 31,571**	$ 30,615	**$ 14,410**	$ 14,579	**$ 6,094**	$ 5,941	**$ 7,880**	$ 7,817	**$ 9,396**	$ 8,942	**$ 69,351**	$ 67,894
Gross operating profit	**$ 24,936**	$ 23,811	**$ 10,670**	$ 11,585	**$ 4,945**	$ 5,096	**$ 4,567**	$ 4,179	**$ 4,542**	$ 4,201	**$ 49,660**	$ 48,872
GOP margin	**44.1%**	43.7%	**42.5%**	44.3%	**44.8%**	46.2%	**36.7%**	34.8%	**32.6%**	32.0%	**41.7%**	41.9%
Property taxes, rent and insurance	**$ 7,375**	$ 7,210	**$ 2,571**	$ 2,395	**$ 1,024**	$ 976	**$ 1,276**	$ 1,218	**$ 1,029**	$ 1,346	**$ 13,275**	$ 13,145
Hotel operating income	**$ 17,561**	$ 16,601	**$ 8,099**	$ 9,190	**$ 3,921**	$ 4,120	**$ 3,291**	$ 2,961	**$ 3,513**	$ 2,855	**$ 36,385**	$ 35,727
HOI margin	**31.1%**	30.5%	**32.3%**	35.1%	**35.5%**	37.3%	**26.4%**	24.7%	**25.2%**	21.7%	**30.6%**	30.6%

(1) The results of the acquired hotels while under the ownership of the REIT was not for the full six months ended June 30, 2004. Also, the comparable period is shown in 2003 which again does not reflect six months. The REIT did not own the acquired hotels for any of the three or six months ended June 30, 2003.

(2) Total results include the additional results as reflected in note (1) which implies total amounts shown for 2003 will differ from previously reported results.

HOTEL REVENUES

Three months ended June 30, 2004

Hotel revenues consist primarily of revenue generated from room occupancy. Revenue from food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, parking and telephone are also included. Revenues other than room revenues for the three months ended June 30, 2004 account for 11.3% (2003 – 7.0%) of total hotel revenues. The mix of room revenue and all other revenue has changed from the prior year as a result of the acquired hotels which compete in the mid-scale with food and beverage sector and earn a higher proportion of total revenue from non-room revenues.

Other revenues increased $4.3 million reflecting $4.3 million in other revenues generated by the REIT's acquired hotels, a large portion of which is food and beverage revenue.

A geographical comparison of the room revenue variance between the three months ended June 30, 2004 and June 30, 2003 is as follows:

	Hotels	Rooms	As a % of total	Room revenue variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.4%	$ 2,370	19.9%	35.7%
Ontario other	45	4,115	31.5%	286	2.4%	1.5%
Total Ontario	55	5,870	44.9%	2,656	22.3%	10.2%
Quebec	28	2,544	19.5%	(432)	(3.6%)	(3.2%)
Atlantic	17	1,315	10.1%	(49)	(0.4%)	(0.8%)
Western	14	1,822	13.9%	134	1.1%	2.1%
Acquired Hotels(1)	9	1,528	11.6%	9,611	80.6%	100.0%
Total(1)	123	13,079	100.0%	$ 11,920	100.0%	22.8%

(1) The results of the acquired hotels do not reflect one full quarter as they were acquired during the three months ended June 30, 2004.

Acquired hotels

Our acquired hotels contributed $9.6 million or 80.6% of the increase in room revenues.

Ontario

Geographically, for the three months ended June 30, 2004, InnVest's original portfolio of Ontario hotels, which accounts for 44.9% of the InnVest portfolio, contributed 22.3% of the increase in room revenue. The GTA alone, which accounts for only 13.4% of the InnVest portfolio, contributed 19.9% or $2,370 of the overall increase as room revenues increased by 35.7%. This reflects a recovery in revenues in the GTA which suffered significant negative effects in demand due to the events of 2003. As for the remainder of Ontario, increases in room revenue throughout the province were partially offset by a decline in our Windsor hotels of $243 or 15.2%, and by a decline of $211 or 6.2% in our Ottawa hotels.

Quebec

The decrease of $432 in Quebec was attributable to our hotels located in Montreal, as they decreased $501 or 6.3% from the prior year. This primarily reflects a decrease in U.S. tourism business. The performance of our Montreal hotels was partially offset by modest growth in our Quebec City and other Quebec hotels.

Atlantic

InnVest's original portfolio of Atlantic region hotels experienced a 0.8% decline over the prior year primarily reflecting a decrease in U.S. leisure travel in this region.

Western

InnVest's original portfolio of Western region hotels experienced an increase of 2.1% over the prior year. This increase was primarily attributable to improvement in our Calgary hotels in the quarter.

Overall Hotel Portfolio

The improvement of $11.9 million in room revenues in the second quarter primarily reflects our recent acquisitions which provided $9.6 million in additional revenue. The remaining $2.3 million reflects the increase in room revenues in our original portfolio with the majority of this improvement being achieved through a successful recovery in our Ontario properties, more specifically our GTA properties.

Six months ended June 30, 2004

Revenues other than room revenues for the six months ended June 30, 2004 account for 9.9% (2003 – 7.6%) of total hotel revenues. The mix of room revenue and all other revenue has changed from the prior year as a result of the acquired hotels which compete in the mid-scale with food and beverage sector and earn a higher proportion of total revenue from non-room revenues.

Other revenues increased by $3.9 million, primarily reflecting the non-room revenues generated by the REIT's recent acquisitions in the second quarter.

A geographical comparison of the room revenue variance between the six months ended June 30, 2004 and June 30, 2003 is as follows:

	Hotels	Rooms	As a % of total	Room revenue variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.4%	$ 2,202	19.1%	15.7%
Ontario other	45	4,115	31.5%	3	–	–
Total Ontario	55	5,870	44.9%	2,205	19.1%	4.4%
Quebec	28	2,544	19.5%	(805)	(7.0%)	(3.3%)
Atlantic	17	1,315	10.1%	16	0.1%	0.2%
Western	14	1,822	13.9%	506	4.4%	4.6%
Acquired Hotels(1)	9	1,528	11.6%	9,611	83.4%	100.0%
Total(1)	123	13,079	100.0%	$ 11,533	100.0%	12.1%

(1) The results of the acquired hotels do not reflect a full period as they were acquired during the three months ended June 30, 2004.

Acquired hotels

Our acquired hotels contributed $9.6 million or 83.4% of the increase in room revenues.

Ontario

Geographically, for the six months ended June 30, 2004, InnVest's original portfolio of Ontario hotels, which accounts for 44.9% of the InnVest portfolio, contributed 19.1% of the increase in room revenue. The GTA alone, which accounts for only 13.4% of the InnVest portfolio, contributed 19.1% or $2.2 million of the overall increase as room revenues increased by 15.7%. This reflects primarily a recovery in the second quarter in revenues in the GTA which significant negative effects in demand due to the events of 2003. As for the remainder of Ontario, increases in room revenue throughout the province were offset by a decline in our Windsor hotels of $325 or 10.0%, and by a decline of $440 or 7.3% in our Ottawa hotels.

Quebec

The decrease of $805 in Quebec was attributable primarily to hotels located in Montreal, which decreased $1.1 million or 8.0% over the prior year. This reflects declines in the Montreal corporate sector, as well as a decreases in U.S. tourism business. The performance of our Montreal hotels was offset by modest growth in our Quebec City and other Quebec hotels.

Atlantic

InnVest's original portfolio of Atlantic region hotels experienced 0.2% growth over the prior year, reflecting market stability in this segment.

Western

InnVest's original portfolio of Western region hotels experienced an increase of 4.6% over the prior year. This increase was primarily attributable to improvement in our Calgary hotels in the period, which experienced an 6.7% improvement.

Overall Hotel Portfolio

The improvement of $11.5 million in room revenues in the period primarily reflects the increased revenues from our acquired hotels of $9.6 million. The remaining $1.9 million reflects the increase in room revenues in our original portfolio, and the majority of this improvement was achieved through a successful recovery in our Ontario hotels, more specifically our GTA hotels which improved $2.2 million. This result combined with the improvement in our Western hotels of $506 along with a decline of $805 in our Quebec hotels result in the REIT's overall improvement.

HOTEL EXPENSES

Three months ended June 30, 2004

Hotel expenses for the three months ended June 30, 2004 increased by $12.2 million or 34.4% compared to the previous year. This primarily reflects $10.4 million in expenses incurred in the acquired hotels. A $1.8 million increase relates to our original portfolio, and represents a 4.9% increase over the prior year. In the original portfolio, room expenses increased $710 as a result of increases in occupancy in the original portfolio over the prior year of 3.8% and the implementation of a new property management system at approximately 40 hotels. Administrative and general expense increased $414, reflecting increases in occupancy as well as new employee training programs. Marketing expense increased $433 primarily due to new guest loyalty programs. Property taxes increased $263 over the prior year.

Six months ended June 30, 2004

Hotel expenses for the six months ended June 30, 2004 increased by $11.9 million or 16.8% compared to the previous year. This primarily reflects $10.4 million in expenses incurred in the acquired hotels. A $1.5 million increase relates to our original portfolio, and represents a 2.0% increase over the prior year. In the original portfolio, room expenses increased $766 as a result of increases in occupancy and the property management systems mentioned above over the prior year of 1.4%. Property taxes increased $500 or 4.9%. Lastly, administrative and general expense increased $351, reflecting increases in occupancy.

HOTEL OPERATING INCOME

Three months ended June 30, 2004

Hotel operating income ("HOI") for the three months ended June 30, 2004 increased by $4.0 million growing to $24.9 million from $20.9 million achieved in the second quarter of 2003. This was a result of higher hotel revenues achieved by the hotel portfolio of $16.2 million, along with an increase in hotel expenses of $12.2 million both of which are mainly attributable to the acquired hotels.

A geographical comparison of the hotel operating income variance between the three months ended June 30, 2004 and June 30, 2003 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.4%	$ 1,480	36.9%	104.5%
Ontario other	45	4,115	31.5%	(134)	(3.3%)	(1.6%)
Total Ontario	55	5,870	44.9%	1,346	33.6%	13.8%
Quebec	28	2,544	19.5%	(701)	(17.5%)	(11.7%)
Atlantic	17	1,315	10.1%	(151)	(3.8%)	(5.2%)
Western	14	1,822	13.9%	3	0.1%	0.1%
Acquired Hotels(1)	9	1,528	11.6%	3,513	87.6%	100.0%
Total(1)	123	13,079	100.0%	$ 4,010	100.0%	19.2%

(1) The results of the acquired hotels do not reflect one full quarter as they were acquired during the three months ended June 30, 2004.

The majority of the improvement in HOI is attributable to the acquired hotels which generated $3.5 million or 87.6% of the REIT's HOI improvement. The remaining $497 or 12.4% of HOI improvement relates to the original hotel portfolio. The majority of the improvement was experienced in the GTA with a $1.5 million or 104.5% improvement over the prior year, primarily reflecting a recovery from the negative effects of SARS in the prior year. InnVest's Quebec hotels experienced a $701 or 11.7% decline in HOI from the prior year. This was primarily attributable to our Montreal hotels which experienced a $629 or 16.6% decline in HOI from the prior year.

Six months ended June 30, 2004

Hotel operating income ("HOI") for the six months ended June 30, 2004 improved by $3.5 million, growing from $32.9 million in the prior year to $36.4 million. This was a result of higher hotel revenues achieved by the hotel portfolio of $15.4 million, along with an overall increase in hotel expenses of $11.9 million. The original hotel portfolio's HOI remained unchanged from the same period of 2003 at $32.9 million.

A geographical comparison of the hotel operating income variance between the six months ended June 30, 2004 and June 30, 2003 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.4%	$ 1,337	38.1%	44.0%
Ontario other	45	4,115	31.5%	(377)	(10.7%)	(2.8%)
Total Ontario	55	5,870	44.9%	960	27.4%	5.8%
Quebec	28	2,544	19.5%	(1,091)	(31.1%)	(11.9%)
Atlantic	17	1,315	10.1%	(199)	(5.7%)	(4.8%)
Western	14	1,822	13.9%	330	9.4%	11.1%
Acquired Hotels(1)	9	1,528	11.6%	3,513	100.0%	100.0%
Total(1)	123	13,079	100.0%	$ 3,513	100.0%	10.7%

(1) The results of the acquired hotels do not reflect a full period as they were acquired during the three months ended June 30, 2004.

Strong gains were made in HOI in our GTA properties along with modest gains in our Western hotels. These results were offset by declines in our Quebec hotels, other-Ontario hotels and Atlantic hotels of the original portfolio. Our Windsor and Ottawa hotels experienced a combined decline of $729 for the six months ended June 30, 2004. This reflects the conditions in these two markets stated previously. The results in these two markets were partially offset by improvements in the remainder of our other-Ontario properties. The decline in our Quebec hotels primarily reflects a decrease in HOI of $1.2 million in our Montreal hotels for reasons stated previously.

OTHER INCOME AND EXPENSES

Three months ended June 30, 2004

Other income and expenses consist of interest on mortgages, corporate and administrative costs, capital tax, franchise business income, other income and depreciation and amortization.

The net amount of other income and expenses for the first quarter was $16.2 million, which was $2.0 million or 13.7% more than the same quarter in 2003. The main contributors to this change were increased interest expense and depreciation of $414 and $1.3 million respectively over the prior year reflecting our recent acquisitions. Corporate and administrative expenses increased $181 or 23.7% due to higher directors' and officers' insurance costs and additional staffing expenses.

Six months ended June 30, 2004

The net amount of other income and expenses for the six months ended June 30, 2004 was $30.8 million, which was $2.1 million or 7.2% more than the same period in 2003. The main contributor to this change was $1.6 million in increased depreciation mainly attributable to the acquired hotels. Also, there was a $359 increase in corporate and administrative expense due to higher directors' and officers' insurance costs, and additional staffing expenses as noted above.

INCOME TAXES

Three months ended June 30, 2004

Current income tax expense for the three months ended June 30, 2004 was $43, a decrease of $274 from the previous year. This decrease is attributable to the benefit recognized from the expected tax loss generated in corporate subsidiaries of the REIT in the current period being carried back to the prior periods. Future income tax expense is recorded as a result of temporary differences between the measurement of income for tax and accounting purposes for the REIT's corporate subsidiaries. The largest temporary difference is the result of differences between depreciation for accounting purposes and the lesser amount claimed as capital cost allowance for income tax purposes. Temporary differences are recorded at the substantively enacted corporate tax rates at which these differences are expected to reverse. InnVest experienced a $448 future income tax recovery increase over the prior period.

For calendar 2003, the REIT reported that 52.5% of the distributions made in 2003 were not taxable to the Unitholders. The REIT estimates that the non-taxable portion of the distributions to the Unitholders for 2004 will be approximately 40%.

Six months ended June 30, 2004

Current income tax expense for the six months ended June 30, 2004 was $348 down from $634 in 2003 because of the tax loss benefit previously discussed. Further, InnVest experienced a $532 future income tax recovery improvement for the period, as future income tax recovery went from $1.1 million in the prior year to $1.6 million in the current year.

NET INCOME

Three months ended June 30, 2004

InnVest's net income for the three months ended June 30, 2004 was $9.7 million or $0.148 per unit – basic (diluted – $0.148), compared with net income for the three months ended June 30, 2003 of $6.9 million or $0.120 per unit – basic (diluted – $0.120). The variance of $2.8 million is a result of higher HOI of $4.0 million partially offset by increases in other expenses of $2.0 million, the current income tax benefit as a result of the recognition carrying tax losses back to prior periods of $262, and an increase in the future income tax recovery of $448.

Six months ended June 30, 2004

InnVest's net income for the six months ended June 30, 2004 was $6.8 million or $0.044 per unit – basic (diluted – $0.044), compared with net income for the six months ended June 30, 2003 of $4.6 million or $0.014 per unit – basic (diluted – $0.014). The variance of $2.3 million is primarily a result of an increase in HOI of $3.5 million offset by increases in other expenses of $2.1 million net of a decrease in the income tax provision.

DISTRIBUTABLE INCOME

Three months ended June 30, 2004

Distributable income is not a measure defined under Canadian generally accepted accounting principles, however it is commonly used in the Real Estate Investment Trust industry to measure performance and relative performance within the industry.

Distributable income for the three months ended June 30, 2004 was $12.2 million or $0.269 per unit – basic (diluted – $0.262). This reflects a $2.2 million increase from the distributable income achieved for the three months ended June 30, 2003 of $10.0 million or $0.244 per unit – basic (diluted – $0.244). The improvement is primarily due to the increase in net income, as higher depreciation and amortization of $1.3 million which is added back to get to distributable income was offset by higher FF&E reserves and convertible debenture interest of $647 and $872 respectively.

Six months ended June 30, 2004

Distributable income for the six months ended June 30, 2004 was $13.0 million or $0.299 per unit – basic (diluted – $0.299). This reflects a $1.9 million increase from the distributable income achieved for the six months ended June 30, 2003 of $11.1 million or $0.271 per unit – basic (diluted – $0.271). The improvement is primarily due to the increase in net income, as higher depreciation and amortization of $1.6 million which is added back to get to distributable income was offset by higher FF&E reserves and convertible debenture interest of $615 and $869 respectively.

CHANGES IN FINANCIAL CONDITION

The following discussion evaluates the cash flow results of InnVest from operational, investing, and financing activities for the three and six months ended June 30, 2004.

Operating Activities

Three months ended June 30, 2004

Funds generated from operating activities were $13.7 million for the three months ended June 30, 2004, which compares to $11.7 million for the six months ended June 30, 2003. The increase is mainly attributable to the results of operations of the nine hotels acquired early in the second quarter. The REIT's original portfolio funds generated from operations remained relatively unchanged from the same period a year ago, as increases in revenue of $2.2 million or 4.0% were partially offset by $1.7 million of increases in various expenses.

Six months ended June 30, 2004

Funds generated from operating activities were $22.3 million for the six months ended June 30, 2004, which compares to $13.9 million for the six months ended June 30, 2003. Again, this increase is mainly attributable to the results of operations and non-cash working capital generated from the nine hotels acquired early in the second quarter. The REIT's original portfolio funds generated from operations remained relatively unchanged from the same period a year ago, as increases in revenue of $1.4 million or 1.4% was offset by increases in fixed costs such as property taxes, increases in marketing costs and other costs increases related to the increased number of rooms sold.

Financing Activities

Three months ended June 30, 2004

Funds from financing activities generated $125.0 million for the three months ended June 30, 2004 compared to a $17.3 million deficit for the three months ended June 30, 2003. The majority of this change relates to the issuance of trust units of $45.3 million net of issuance costs, the issuance of convertible debentures of $54.9 million net of issuance costs, new mortgage proceeds of $54.9 million, net of $9.9 million used to repay the operating loan balance at March 31, 2004 and a temporary $4.1 million repayment of mortgages payable that is available to be drawn upon when funds are required. The increase in cash distributions of $199 is comprised of $853 of distributions on the newly issued trust units, net of $777 related to the implementation of the distribution reinvestment plan, which was not in effect until the middle of the second quarter of 2003.

Six months ended June 30, 2004

Funds from financing activities generated $120.0 million for the six months ended June 30, 2004 compared to a $33.0 million deficit for the six months ended June 30, 2003. The majority of this change relates to activities discussed above excluding the $9.9 million repayment of the operating loan advanced in the first quarter of 2004. Increases in distributions of the newly issued units of $853 were more than offset by a $1.3 million decrease in cash distributions related to the implementation of the distribution reinvestment plan, which was not in effect until the middle of the second quarter of 2003.

On April 2, 2004, InnVest closed an equity and convertible debenture issue pursuant to a final short form prospectus dated March 23, 2004. InnVest used the funds raised, along with long-term mortgage financing secured in part to purchase the acquired and to-be-acquired hotels as follows:

	Closed April, 2004	Closed July, 2004	Total
Funds from financing activities			
Trust units, net of commissions and costs	$ 45,281	$ –	$ 45,281
Convertible debentures, net of commissions and costs	54,944	–	54,944
Long-term debt mortgage financing	54,875	6,500	61,375
Capital lease obligation assumed	2,052	–	2,052
	$ 157,152	$ 6,500	$ 163,652
Less purchase price and related costs	$ 116,817	$ 14,231	$ 131,048
Excess cash	$ 40,335	$ (7,731)	$ 32,604

InnVest intends to deploy the excess cash raised to make selected acquisitions that will be accretive to earnings and cash flow.

CONVERTIBLE DEBENTURES

On April 2, 2004, the REIT raised a total amount of $57.5 million in convertible debentures, which bear interest at an annual rate of 6.25% payable semi-annually in arrears on April 15 and October 15 in each year commencing October 15, 2004. The debentures have a term of seven years and are convertible into units of the REIT at a conversion price of $12.50 per unit.

MORTGAGE FINANCING

The REIT secured two pools of mortgage financing with each pool secured by five of the acquired or to-be-acquired hotels. The first mortgage pool of financing is $31.1 million, which was fully funded in April 2004. These mortgages bear interest at an annual rate of 6.65% compounded semi-annually and are payable in blended monthly payments of interest and principal amortized over 21.4 years during their 10-year term. The second mortgage pool of financing is $30.3 million, of which $23.8 million was advanced in April 2004, and the remaining $6.5 million was advanced in July 2004. The first advance of the second mortgage pool bears interest at an annual rate of 6.60% compounded semi-annually and are payable in blended monthly payments of interest and principal amortized over 25 years during their 10-year term. The second advance in July 2004 bears interest at a rate of 6.78%, with all other terms being identical.

Investing Activities

Three months ended June 30, 2004

Funds from investing activities generated a deficit of $110.9 million for the three months ended June 30, 2004 compared to a $2.3 million deficit for the three months ended June 30, 2003. This decrease was mainly the result of $101.6 million in hotel acquisitions which closed in April 2004 and a $3.4 million increase in capital expenditures in the quarter, along increases in the cash restricted for future furniture, fixtures and equipment and capital expenditures of $3.9 million.

As part of the regular refurbishment program, InnVest sets aside 4% of revenues for the replacement of furniture, fixture and equipment and capital improvements (“FF&E reserve”) shown as restricted cash in the financial statements. The FF&E reserve is managed over the longer term to maintain the hotel properties in order to ensure that they remain competitive in their markets. For the three months ended June 30, 2004 and 2003 a total amount of $5.7 million and $2.2 million respectively was spent on capital items. The FF&E reserve balance at June 30, 2004 was $17.2 million, an increase of $3.9 million over the period.

Six months ended June 30, 2004

Funds from investing activities generated a deficit of $118.0 million for the six months ended June 30, 2004 compared to a $4.1 million deficit for the three months ended June 30, 2003. Again, this decrease was mainly the result of $107.4 million in hotel acquisitions which closed in April 2004 and a $2.8 million increase in capital expenditures in the period, along with a $4.0 million increase in cash restricted for future furniture, fixtures and equipment and capital expenditures.

For the six months ended June 30, 2004 and 2003 a total amount of $7.0 million and $4.3 million respectively was spent on capital items. The REIT intends to follow a program of completing a significant amount of its property refurbishments when there is less hotel demand, as it is management's objective to displace a minimal amount of business from rooms being out of service for refurbishment.

Subsequent events

On July 2, 2004 InnVest acquired the 193-room Holiday Inn Oshawa, Ontario. This completed the transaction entered into in the first quarter, whereby nine hotels were acquired for $111.5 million and were funded through the issuance of trust units, convertible debentures and long-term mortgage financing. The Holiday Inn Oshawa, Ontario was acquired for $13.4 million plus closing costs and was funded partially through $6.5 million of long-term mortgage financing.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The following chart summarizes InnVest's future contractual obligations as at June 30, 2004 and additional obligations related to a hotel acquired in July 2004:

	Balance of 2004	2005	2006	2007	2008	2009 and thereafter	Total
As at June 30, 2004							
Mortgages payable	$ 3,655	$ 7,943	$ 138,534	$ 4,297	$ 154,117	$ 49,423	$ 357,969
Capital lease obligation	153	87	94	101	113	1,504	2,052
Operating equipment leases	350	553	503	393	290	479	2,568
Long-term land leases	738	1,542	1,489	1,324	1,332	68,638	75,063
Convertible debentures	–	–	–	74,470	–	57,500	131,970
	4,896	10,125	140,620	80,585	155,852	177,544	569,622
Related to a hotel acquired in July, 2004							
Mortgages payable	43	112	119	127	135	5,964	6,500
Operating equipment leases	20	2	–	–	–	–	22
	63	114	119	127	135	5,964	6,522
Adjusted pro forma total	$ 4,959	$ 10,239	$ 140,739	$ 80,712	$ 155,987	$ 183,508	$ 576,144

The next material refinancing to occur will be in 2006 when $138.5 million of long-term debt matures. At that time, InnVest will seek refinancing of the debt. InnVest will follow the same strategy in 2008, when $154.1 million of long-term debt matures.

The long-term land leases require minimum annual average lease payments as outlined above, expire between the years 2023 and 2088. There are also future rental charges that are determined as a percentage of revenues that are not included in the amounts reflected above.

Liquidity is generated from cash flow from hotel operations, the 50% interest in Choice Canada, bank operating lines available and by the ability to finance certain unencumbered or under-leveraged assets. Funds generated from operations in the three months ended June 30, 2004 were $17.7 million or $0.329 per unit – basic (diluted – $0.311) as compared to $14.1 million or $0.343 per unit – basic (diluted – $0.290) for the same period in 2003. Funds generated from operations in the six months

ended June 30, 2004 were $22.1 million or $0.405 per unit – basic (diluted – $0.405) as compared to $18.9 million or $0.460 per unit – basic (diluted – $0.388) for the same period in 2003.

The REIT is structured in a manner to segregate the ownership and operations of the hotel properties. The bricks and mortar are owned directly by the REIT and underlying corporate subsidiaries. The operations of the hotels and ownership of the chattels are held through partnership subsidiaries. The inter-entity relationships between the operations and ownership structures are governed by leasing and inter-entity debt agreements, the terms of which are at commercial rates considered acceptable for income tax purposes. The structure allows for the efficient access to cash generated through the operations of the hotels, and flow through of income and tax deductions to the REIT's unitholders.

Capital Resources

The REIT had unused operating loan availability of $25 million at June 30, 2004 and four hotel properties that remain unencumbered that could generate approximately $6.5 million in mortgage proceeds. The REIT also has an unused acquisition facility of $40 million available to acquire hotel properties and an unused loan facility of $24 million available to fund 50% of capital expenditures incurred.

In addition to these, InnVest sets aside 4% of total hotel revenues for the purpose of the replacement of furniture, fixtures and equipment and for capital improvements. For the remainder of 2004, it is forecasted that InnVest will spend approximately $7 million for this purpose, which represents a $2.6 million increase on its original portfolio from the forecasted 2004 capital expenditures reported in the first quarter. These additional amounts relate to work previously planned to commence in 2005. For the acquired hotels, InnVest is forecasting $3 million of capital expenditures to be completed in 2004, which was previously planned to commence in 2005. Capital expenditures committed and yet to be incurred at June 30, 2004 were $1.3 million.

The following chart shows the changes in the restricted cash balance for the three and six months ended June 30, 2004 along with their comparable periods:

	Three months ended June 30		Six months ended June 30	
	2004	2003	**2004**	2003
Opening balance	**$ 13,359**	$ 11,947	**$ 13,381**	$ 12,075
4% of revenues	**2,900**	2,253	**4,760**	4,145
Transferred from operating cash	**515**	–	**–**	–
Initial reserve – acquired hotels	**6,100**	–	**6,100**	–
Capital expenditures	**(5,653)**	(2,239)	**(7,020)**	(4,259)
Closing balance	**$ 17,221**	$ 11,961	**$ 17,221**	$ 11,961

During the three months ended June 30, 2004, the REIT distributed $12.8 million or $0.2813 per unit, of which $777 was distributed in units as part of the Distribution Reinvestment Plan ("DRIP"), at the rate of $0.09375 per unit per month, with an additional 3% premium attached to the unit distribution, bringing the total distributions for the six months ended June 30, 2004 to $24.4 million or $0.5625 per unit, of which $1.4 million was distributed in units as part of the DRIP. A regular monthly distribution of $0.09375 per unit for the month of June 2004 was paid in July 2004 and the distribution of $0.09375 per unit for the month of July 2004 was declared and will be payable on August 13, 2004.

Mortgage debts with a weighted average interest rate of 7.8% maturing through to the end of 2005 total $44.9 million. The REIT has a $100 million mortgage loan facility with its main mortgage lender which is available to repay these mortgage debts as they mature. The remaining availability of this facility is $47.2 million. Consequently, the REIT has minimal refinancing risk until 2006.

InnVest expects to meet its obligations and make cash distributions to its unitholders, based on cash flow to be generated from operations, its cash position and its borrowing capacity. Future growth is expected to be funded from cash on hand and borrowing capacity and through the issuance of trust units.

Issued Trust Units

As at June 30, 2004 a total of 45,628,095 units of the REIT were outstanding. There is only one class of trust units, with each unit eligible for one vote. During the first two quarters of 2004 units were issued under the trustee compensation plan, the distribution reinvestment plan ("DRIP") and through the conversion of convertible debentures as follows:

	Units	Amount
Balance at December 31, 2003	$ 41,247,862	$ 389,310
First quarter activity		
Units issued under trustee compensation plan	4,678	53
Units issued under DRIP	60,484	671
Units issued upon conversion of debentures	46,511	505
Balance at March 31, 2004	$ 41,359,535	$ 390,539
Second quarter activity		
Units issued under prospectus dated March 23, 2004	4,187,000	45,281
Units issued under trustee compensation plan	2,900	30
Units issued under DRIP	75,870	777
Units issued upon conversion of debentures	2,790	30
Balance at June 30, 2004	$ 45,628,095	$ 436,657
Activity subsequent to June 30, 2004		
Units issued under DRIP	25,093	272
Units issued under trustee compensation plan	2,709	30
Units issued under executive compensation plan	20,573	231
Balance at August 5, 2004	$ 45,676,470	$ 437,190

There are a total of $74.5 million in outstanding convertible unsecured subordinated debentures at June 30, 2004 from the initial series of debentures issued July 26, 2002. These debentures are convertible into trust units at a strike price of $10.75, bear interest at 9.75% per annum payable semi-annually in arrears on June 30 and December 30 in each year and are due June 30, 2007. The total remaining trust units to be issued upon conversion for this series of debentures is 6,927,442.

On April 2, 2004 the REIT issued $57.5 million of convertible unsecured subordinated debentures ("Series A Debentures"). These debentures are convertible into trust units at a strike price of $12.50, bear interest at 6.25% per annum payable semi-annually on April 15 and October 15 in each year, commencing October 15, 2004 and are due April 15, 2011. The total trust units to be issued upon conversion of the Series A Debentures are 4,600,000.

HISTORICAL QUARTERLY OPERATING RESULTS COMPARISON

InnVest has audited results for the year ended December 31, 2003 and the period from July 26, 2002 to December 31, 2002. The following is therefore a year-over-year comparison of hotel operating results for the quarters of 2003 and 2002 using unaudited results for each quarter and for the year ended December 31, 2002.

	June 30 2004	March 31 2004	Dec. 31 2003	Sept. 30 2003	June 30 2003	March 31 2003	Dec. 31 2002	Sept. 30 2002(1)	June 30 2002(1)
Occupancy	**63.8%**	53.0%	55.4%	71.0%	61.0%	53.6%	57.2%	78.8%	69.1%
Average daily rates	**$ 85.32**	$ 77.13	$ 78.70	$ 87.20	$ 81.67	$ 77.79	$ 78.55	$ 88.73	$ 81.87
Revenue per available room	**$ 54.39**	$ 40.86	$ 43.57	$ 61.91	$ 49.82	$ 41.69	$ 44.93	$ 69.92	$ 56.65
Room revenues	**$ 64,283**	$ 42,946	$ 46,300	$ 65,786	$ 52,363	$ 43,335	$ 47,742	$ 74,304	$ 59,333
Total revenues	**$ 72,498**	$ 46,513	$ 50,287	$ 70,306	$ 56,318	$ 47,305	$ 51,956	$ 79,435	$ 63,847
Hotel operating expenses and management fees	**$ 40,430**	$ 28,921	$ 29,174	$ 32,327	$ 29,537	$ 29,406	$ 29,507	$ 35,715	$ 31,700
Gross operating profit	**$ 32,068**	$ 17,592	$ 21,113	$ 37,979	$ 26,781	$ 17,899	$ 22,449	$ 43,720	$ 32,147
Gross operating profit margin	**44.2%**	37.8%	42.0%	54.0%	47.6%	37.8%	43.2%	55.0%	50.4%
Property taxes, rent and insurance	**$ 7,142**	$ 6,133	$ 5,823	$ 5,931	$ 5,865	$ 5,943	$ 5,545	$ 5,665	$ 5,778
Hotel operating income	**$ 24,926**	$ 11,459	$ 15,290	$ 32,048	$ 20,916	$ 11,956	$ 16,904	$ 38,055	$ 26,369
Hotel operating income margin	**34.4%**	24.6%	30.4%	45.6%	37.1%	25.3%	32.5%	47.9%	41.3%
Net income (loss)	**$ 9,695**	$ (2,868)	$ (13,414)	$ 19,712	$ 6,914	$ (2,354)	$ 2,672	$ 17,715	$ –
Net income (loss) per unit									
– basic	**$ 0.148**	$ 0.117	$ (0.374)	$ 0.431	$ 0.120	$ (0.106)	$ 0.021	$ 0.399	$ –
– diluted	**$ 0.148**	$ 0.117	$ (0.374)	$ 0.410	$ 0.120	$ (0.106)	$ 0.021	$ 0.369	$ –
Distributable income	**$ 12,207**	$ 779	$ 6,990	$ 21,337	$ 10,019	$ 1,109	$ 5,916	$ 19,347	$ –
Distributions paid	**$ 12,813**	$ 11,619	$ 11,594	$ 11,577	$ 11,556	$ 11,553	$ 11,553	$ 4,596	$ –
Distributable income per unit									
– basic	**$ 0.269**	$ 0.019	$ 0.170	$ 0.519	$ 0.244	$ 0.027	$ 0.144	$ 0.471	$ –
– diluted	**$ 0.262**	$ 0.019	$ 0.170	$ 0.481	$ 0.244	$ 0.027	$ 0.144	$ 0.430	$ –
Trust units outstanding	**45,628,095**	41,359,535	41,247,862	41,179,554	41,096,747	41,082,720	41,075,910	41,075,910	–
Weighted average of trust units outstanding	**45,445,996**	41,292,952	41,214,890	41,140,075	41,087,537	41,079,756	41,075,910	41,075,910	–
Total assets	**$1,030,037**	$ 883,783	$ 887,054	$ 904,148	$ 901,686	$ 912,501	$ 932,912	$ 948,760	$ –
Total long-term debt	**$ 360,021**	$ 309,009	$ 310,926	$ 312,896	$ 314,236	$ 317,223	$ 319,462	$ 321,642	$ –

(1) The REIT began operations on July 26, 2002, therefore the net income, distributable income and the related per units amounts for the September 2002 quarter reflect the results for the period from July 26, 2002 to September 30, 2002 and are not available for the June 2002 quarter. Hotel operating revenues, expenses and income reflect operations for the June and September 2002 quarters have been adjusted for the current management fee structure.

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenues earned from hotel operations fluctuate throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest as leisure travel tends to be lower. The results from operations vary materially from quarter to quarter because of the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, depreciation and amortization, corporate and administrative are fixed or virtually fixed.

The quarterly negative RevPAR variances on a year-over-year basis have continued to improve after the second quarter of 2003, as illustrated in the chart below:

Quarters Ended	% RevPAR Change from Prior Year
June 30, 2004(1)	**4.9%**
March 31, 2004	-2.0%
December 31, 2003	-3.0%
September 30, 2003	-11.4%
June 30, 2003	-12.1%

(1) % RevPAR change compares the original portfolio plus the acquired hotels on a same hotel basis.

InnVest is expecting that the third and fourth quarters of 2004 will post an overall increase in RevPAR over the same period in 2003.

RISKS AND UNCERTAINTIES

The REIT is subject to the normal operating risks consistent with hotel ownership, including the risks described below. The REIT has risk management processes in place, and additionally mitigates business risks through restrictions, limitations and policies placed upon it by its trust indenture as outlined below.

Real Estate Investment Risks

One of the factors contributing to the REIT's income and its ability to make distributions to its Unitholders is its ability to operate the hotel portfolio in a manner that maintains or increases revenues and that generates sufficient hotel operating income.

Hotel Industry Risks

The REIT is subject to the operating risks inherent in the Canadian hotel industry, including:

- Cyclical downturns arising form changes in economic conditions;
- Competition from other hotels;
- Seasonal fluctuations in hotel operating income produced throughout the year;
- Changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulation, changes in interest rates or currency fluctuations;
- Changes in the level of business, commercial and tourism travel;
- Increase in the supply of accommodations in local markets may adversely affect the results of operations; and
- Availability and pricing of financing for operating or capital requirements.

The REIT mitigates these risks by having a geographically diverse portfolio of hotels, which were acquired at below replacement costs, many of which are in markets with significant barriers to entry. The REIT maintains a $25 million operating line to ensure that the seasonal fluctuation in the generation of cash flow will not affect its ability to operate in the normal course of business.

The REIT also has significant buying power and negotiates favourable national contracts on a regular basis for operating supplies and renovation materials required, and hedges energy costs where deemed appropriate. The REIT's strategy is to maintain customers across several segments, including corporate, government, leisure, local, crew, sports and other groups, and not rely overly on any one segment.

The REIT is required to maintain, by its Trust Indenture, a conservative leverage of 50% or less of its gross asset value (which is defined as total assets before accumulated depreciation less future income tax liability). The vast majority of the REIT's mortgage debt is subject to fixed interest rates, which significantly reduces its exposure to changes in interest rates. The REIT also has the ability to fix interest rates at any time for debts currently subject to floating interest rates, and is in process of developing a longer term interest rate hedging program in order to minimize the interest rate risk on maturing debts.

Trust Indenture

InnVest is governed by its Trust indenture which is intended to mitigate risks by virtue of the restrictions, limitations and policies for financial and operational management. The following is a list of the restrictions, limitations, and policies:

- Eligible investments restricted primarily to hotels in Canada;
- A prohibition against investing in raw land for development and engaging in the development and construction of new real property;
- Individual property mortgages, or mortgages on a pool of properties, cannot exceed 75% of their respective values;
- A limitation on debt of 50% of gross asset value, before convertible debentures. The REIT's leverage at June 30, 2004 was 37.7%;
- A limitation on debt of 60% of gross asset value, including convertible debentures. The REIT's leverage, including convertible debentures, at June 30, 2004 was 51.5%;
- Units cannot be issued from treasury unless the trustees consider it not to be dilutive to ensuing annual distributions of distributable income to existing Unitholders;
- A requirement to pay distributions of not less than 80% of the annual distributable income, equally on a monthly basis;
- Related party transactions require the approval of two-thirds of the independent trustees, and any transfers of real property between related parties requires an independent appraisal; and
- Any material change to the Master Hotel Management Agreement requires two-thirds approval of the independent trustees.

FINANCIAL ACCOUNTING CONSIDERATIONS

RELATED PARTY TRANSACTIONS

Franchise Business

InnVest owns 50% of Choice Canada. The other 50% is owned by Choice Hotels International, which is one of the largest hotel franchise companies in the world. Choice Canada earns franchise revenues by charging monthly royalty fees to hotel owners based on a percentage of the licenced hotels' revenues and by selling franchises. Under the terms of the joint venture agreement between Choice International and a subsidiary of the REIT, InnVest pays a below market royalty fee for its hotels that are franchised under the Choice hotel brands. This arrangement will remain in place for the duration of the joint venture until 2092. Royalty payments paid to Choice Canada by the REIT for the three and six months ended June 30, 2004 totaled $130 and $281 respectively.

Management Company

On July 26, 2002, the REIT entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement ("the Agreements") with Westmont. Westmont is controlled by a minority Unitholder of the REIT. The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire July 25, 2012. The Agreements are subject to non-competition arrangements. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross hotel revenues during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of $1.25 per unit. No management incentive fees were earned in the three and six months ended June 30, 2004.

In addition to the base management fee and incentive fee, Westmont is entitled to reasonable fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting services, reasonable out-of-pocket costs and expenses, (other than general and administrative expenses or overhead costs except as otherwise provided in the Administrative Services Agreement) and project management and general contractor service fees related to hotel renovations managed by Westmont.

HEDGING TRANSACTIONS

InnVest's Ontario hotel properties have established fixed contracts with Ontario Power Generation for the provision of hydro electricity. The purpose of these contracts is to reduce the exposure InnVest has to hydro prices in the province of Ontario. The energy contracts set the price of electricity at 52.45 cents/MWh for quantities contracted for. The contracts were established on April 26, 2002 and have a length of 3 years. In the first year of the contract, 100% of the expected usage was contracted for at the fixed price. In the second and third year of the contract, the quantity contracted for at fixed prices declines to 75% and 50% of the expected usage respectively. InnVest pays market rates for the amount of electricity it consumes that are not contracted for at fixed prices. InnVest accounts for this hedge by recording the contracted price of electricity in its accounts for quantities up to the minimum contracted amounts. Electricity usage above this amount is recorded at the market rate. If this arrangement was terminated, the REIT would be subject to the market fluctuations in electricity prices for its Ontario hotels for its entire electricity consumption as opposed to the non-hedged portion.

CRITICAL ACCOUNTING ESTIMATES

A description of the REIT's significant accounting policies is summarized in Note 1 to the consolidated financial statements. Generally accepted accounting principles require management to make estimates and assumptions concerning the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management uses its judgment and knowledge from past experience as a basis for estimates and other assumptions required in the preparation of the financial statements. Management's estimates and assumptions are evaluated and updated on a regular basis. The actual results for the REIT may materially differ, if management were to use different estimates and assumptions. The following accounting estimates are what management considers to be the most critical in the preparation of the REIT's consolidated financial statements.

Hotel properties

Hotel properties, consisting of land, buildings and furniture, fixtures and equipment, represent the vast majority of the REIT's assets. Depreciable assets within hotel properties again represent the vast majority of the assets of the REIT and the depreciation method and estimates of useful life selected could have a material impact on the REIT's operating results. InnVest depreciates these assets using the straight-line method over their estimated economic or useful lives, which are estimated at 40 years for buildings, up to seven years for building renovations, up to seven years for furniture and fixtures and 10 years for paving.

Allocation of purchase price for acquired hotels

The REIT has accounted for the acquired hotels using the purchase method of accounting. Accordingly, management undertook a process of identifying all tangible and intangible assets acquired and has made a preliminary allocation based on their relative fair value. The REIT is continuing to evaluate the fair value of the net assets acquired and based on this on-going evaluation, the purchase price allocation may be adjusted in future periods.

Valuation of hotel properties

Generally accepted accounting principles require that long-lived assets be written down to fair value at such time that it is determined that they have been permanently impaired. In order to determine if any of the hotel properties have been permanently impaired, future cash flows are forecasted for each hotel using its most recent performance and expected trends in each specific market, such as new or expected new hotel supply, local and macroeconomic conditions. Then the undiscounted cash flows are aggregated and compared to the net book value of each hotel. An impairment in value will be recorded if the aggregate undiscounted cash flows are less than the net book value for a specific hotel. Each hotel in the portfolio is

currently generating and is forecasted to continue to generate positive operating cash flow sufficient to conclude that no impairment of value exists at the present time.

Income taxes

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of the balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse. The book value of the assets of the REIT's subsidiaries are approximately $407.2 million higher than their respective tax values. Income taxes will be payable if assets that contribute to this difference are sold at amounts higher than their tax base. The REIT has recorded a future income tax liability of $138.6 million related to these temporary differences, which will reverse over time.

Fair value of debt instruments

Long-term debt that was assumed on the acquisition of hotel properties was recorded at its fair value on the date of acquisition, July 26, 2002. The fair value was determined by discounting expected payments on the debts at interest rates being offered to the REIT for debt of the same remaining maturities. In determining interest rates offered to the REIT, management used the government of Canada bench mark bond yields for the appropriate time period, then added the expected spread currently being offered to it by various lenders. The difference between the fair value and the face value of the long-term debt was estimated at $2.7 million, was recorded as an increase to long-term debt and is being amortized over approximately two years from the acquisition date through a reduction to interest expense at a rate of approximately $342 per quarter and will be fully amortized prior to the end of the third quarter in 2004.

CHANGES IN ACCOUNTING POLICIES

Impairment of value of hotel properties

Effective January 1, 2004, InnVest adopted the new CICA standard with respect to accounting for the impairment of long-lived assets and it has been applied prospectively. The new requirement is that long-lived assets be reviewed by management for impairment whenever any events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. The adoption of this new standard did not have an impact on InnVest's results from operations or financial position.

Disposal of long-lived assets and discontinued operations

At the beginning of 2004 the REIT also adopted the new CICA standard with respect to the disposal of long-lived assets and discontinued operations, whereby provided certain criteria are met, long-term assets and related assets and liabilities expected to be disposed of by management will be classified as held for sale. The adoption of this new standard did not have an impact on InnVest's results from operations or financial position.

Hedging relationships

Effective January 1, 2004, InnVest adopted the new CICA standard with respect to accounting for hedging transactions. The new standard specifies the requirements that must be in place in regards to a hedge transaction in order for the transaction to be accounted for as a hedge. The adoption of this new standard did not have an impact on InnVest's results from operations or financial position.

PENDING CHANGES IN ACCOUNTING POLICIES

Liabilities and equity presentation

Effective for periods beginning on or after November 1, 2004, the CICA has issued new guidance with respect to accounting for financial instruments. This new standard requires certain financial instruments that may be settled in cash or by an issuer's own equity instrument, at the issuer's discretion, by a variable number of the issuer's own equity instruments to be

presented as liabilities. The adoption of this new standard will have the effect that the REIT's convertible debentures will have to be reclassified from equity to liabilities and that interest on the debentures will be deducted in the calculation of net income or loss. The new standard will not have any effect on net income or loss per unit as the interest expense on the convertible debentures is currently deducted from earnings for the purpose of the per unit calculations.

OUTLOOK

The recovery in the Canadian hotel industry is continuing albeit at a slower pace than expected. The recovery is reflected in the 4.9% improvement in RevPAR experienced by InnVest during the quarter on a same hotel basis. While we had expected greater RevPAR improvement in the quarter, U.S. travel and tourism into Canada has lagged behind expectations. This decrease in demand has been felt in our Montreal hotels which typically have strong U.S. tourist demand in the summer months. Since we expect that this trend will continue during the remaining summer months, our focus is to target local travellers to a greater extent through stepped up sales and marketing programs. Certain of our properties continued to experience decreased demand due to specific market conditions. Our Windsor hotels experienced a decline in demand due to the strike of employees at Casino Windsor and slow border crossings and our Ottawa hotels experienced declines as a result of a decrease in government travel and spending. With the recent ending of the employee strike at Casino Windsor and with the federal election being behind us, we should see improvement in these two markets.

FORWARD–LOOKING INFORMATION

The preceding management's discussion and analysis contains forward looking or outlook information with respect to InnVest. Because forward-looking information addresses future events and conditions, it involves risk and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking information. These risks and uncertainties are discussed earlier in management's discussion and analysis, as well as the REIT's annual information form.

InnVest disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities laws.

Consolidated Balance Sheets

(in thousands of dollars)	**June 30, 2004**	December 31, 2003
ASSETS	(Unaudited)	
Current Assets		
Cash	**$ 28,146**	$ 3,958
Accounts receivable	**10,336**	7,827
Prepaid expenses and other assets	**8,639**	3,747
	47,121	15,532
Restricted cash	**17,221**	13,381
Hotel properties *(Note 3)*	**933,739**	828,262
Licence contracts		
(accumulated amortization $2,545 – December 31, 2003 – $1,887)	**23,775**	24,433
Deferred financing and other assets *(Note 4)*	**8,181**	5,446
	$ 1,030,037	$ 887,054
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 25,257**	$ 17,197
Distributions payable	**4,278**	3,867
Acquisition related liabilities	**776**	759
Current portion of long-term debt *(Note 5)*	**7,446**	7,043
	37,757	28,866
Long-term debt *(Note 5)*	**352,575**	303,883
Future income tax liability	**138,570**	135,441
	528,902	468,190
EQUITY		
Unitholders' equity	**368,132**	343,240
Convertible debentures *(Note 7)*	**133,003**	75,624
	501,135	418,864
	$ 1,030,037	$ 887,054

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

Consolidated Statements of Net Income

(in thousands of dollars, except per unit amounts) (Unaudited)	**Three months ended June 30, 2004**	Three months ended June 30, 2003	**Six months ended June 30, 2004**	Six months ended June 30, 2003
Hotel revenues	**$ 72,498**	$ 56,318	**$119,011**	$103,623
Hotel expenses				
Operating expenses	**37,983**	27,641	**65,334**	55,446
Property taxes, rent and insurance	**7,142**	5,865	**13,275**	11,808
Management fees	**2,447**	1,896	**4,017**	3,497
	47,572	35,402	**82,626**	70,751
Hotel operating income	**24,926**	20,916	**36,385**	32,872
Other (income) and expenses				
Interest on mortgages	**6,003**	5,589	**11,346**	11,189
Corporate and administrative	**945**	764	**1,869**	1,510
Capital tax	**490**	495	**980**	990
Franchise business income	**(517)**	(582)	**(825)**	(799)
Other income	**(115)**	(66)	**(144)**	(119)
Depreciation and amortization	**9,372**	8,027	**17,600**	15,991
	16,178	14,227	**30,826**	28,762
Income before income tax expense	**8,748**	6,689	**5,559**	4,110
Income tax expense (recovery)				
Current	**43**	317	**348**	634
Future	**(990)**	(542)	**(1,616)**	(1,084)
	(947)	(225)	**(1,268)**	(450)
Net income	**$ 9,695**	$ 6,914	**$ 6,827**	$ 4,560
Net income per unit – basic and diluted *(Note 8)*	**$ 0.148**	$ 0.120	**$ 0.044**	$ 0.014

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

Consolidated Statements of Unitholders' Equity

(in thousands of dollars)	Units in $	Net Income	Distributions	Executive Compensation	Convertible Debentures Interest and Accretion	Total
Balance December 31, 2002	$ 387,744	$ 20,387	$ (20,000)	$ 72	$ (3,170)	$ 385,033
CHANGES DURING THE PERIOD						
Net income	–	4,560	–	–	–	4,560
Unit distributions	–	–	(23,109)	–	–	(23,109)
Distribution reinvestment plan units issued *(Note 6)*	123	–	–	–	–	123
Costs incurred regarding the distribution reinvestment plan *(Note 6)*	(19)	–	–	–	–	(19)
Executive and trustee compensation *(Note 6)*	60	–	–	84	–	144
Convertible debentures interest and accretion	–	–	–	–	(3,968)	(3,968)
Balance June 30, 2003	$ 387,908	$ 24,947	$ (43,109)	$ 156	$ (7,138)	$ 362,764
Balance December 31, 2003	$ 389,310	$ 31,245	$ (66,280)	$ 72	$ (11,107)	$ 343,240
CHANGES DURING THE PERIOD						
Net income	–	6,827	–	–	–	6,827
Unit distributions	–	–	(24,432)	–	–	(24,432)
Issue of new units	47,522	–	–	–	–	47,522
Costs incurred regarding issue of new units	(2,241)	–	–	–	–	(2,241)
Distribution reinvestment plan units issued *(Note 6)*	1,448	–	–	–	–	1,448
Conversion of debentures	535	–	–	–	–	535
Executive and trustee compensation *(Note 6)*	83	–	–	84	–	167
Convertible debentures interest and accretion	–	–	–	–	(4,934)	(4,934)
Balance June 30, 2004	$ 436,657	$ 38,072	$ (90,712)	$ 156	$ (16,041)	$ 368,132

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

Consolidated Statements of Cash Flows

(in thousands of dollars) (Unaudited)	**Three months ended June 30, 2004**	Three months ended June 30, 2003	**Six months ended June 30, 2004**	Six months ended June 30, 2003
OPERATING ACTIVITIES				
Net income	**$ 9,695**	$ 6,914	**$ 6,827**	$ 4,560
Add (deduct) items not affecting operations				
Depreciation and amortization	**8,895**	7,661	**16,748**	15,259
Amortization of deferred financing and other assets	**477**	366	**852**	732
Future income tax recovery	**(990)**	(542)	**(1,616)**	(1,084)
Non-cash executive and trustee compensation	**95**	42	**167**	144
Amortization of fair value debt adjustment	**(342)**	(341)	**(684)**	(682)
Changes in non-cash working capital	**(4,100)**	(2,402)	**(40)**	(5,018)
	13,730	11,698	**22,254**	13,911
FINANCING ACTIVITIES				
Repayment of long-term debt	**(32,909)**	(2,646)	**(40,584)**	(4,544)
Proceeds from long-term debt	**82,211**	-	**88,311**	-
Issue of trust units, net of issue cost	**45,281**	-	**45,281**	-
Issue of convertible debentures	**57,500**	-	**57,500**	-
Costs incurred regarding the distribution reinvestment plan	**-**	-	**-**	(19)
Unit distributions	**(11,632)**	(11,433)	**(22,573)**	(22,986)
Decrease in bank indebtedness	**(9,927)**	-	**-**	-
Changes in non-cash working capital related to financing activities	**81**	(1,408)	**(208)**	(1,824)
Deferred financing	**(2,939)**	-	**(3,221)**	-
Convertible debentures interest	**(2,700)**	(1,828)	**(4,525)**	(3,656)
	124,966	(17,315)	**119,981**	(33,029)
INVESTING ACTIVITIES				
Capital expenditures on hotel properties	**(5,653)**	(2,239)	**(7,020)**	(4,259)
Other assets	**(341)**	-	**(366)**	-
Changes in non-cash working capital related to investing activities	**604**	-	**604**	-
Acquisition costs	**(101,599)**	-	**(107,425)**	-
Changes in restricted cash	**(3,862)**	(14)	**(3,840)**	114
	(110,851)	(2,253)	**(118,047)**	(4,145)
Increase (decrease) in cash during the period	**27,845**	(7,870)	**24,188**	(23,263)
Cash, beginning of period	**301**	11,337	**3,958**	26,730
Cash, end of period	**$28,146**	$ 3,467	**$28,146**	$ 3,467
Supplemental disclosure of cash flow information:				
Cash paid for interest	**$ 5,614**	$ 6,048	**$11,440**	$11,978
Cash paid for income taxes (including capital tax)	**$ 651**	$ 1,024	**$ 1,302**	$ 2,049

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

June 30, 2004 (all dollar amounts are in thousands, except unit and per unit amounts) Unaudited

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust (“InnVest” or the “REIT”) is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT was established pursuant to a declaration of trust dated January 1, 2002. On July 25, 2002, the REIT raised $300,000 (before issue costs) by issuing units on the Toronto Stock Exchange. These proceeds together with the issue of additional units and convertible debentures were utilized to acquire a portfolio of 114 Canadian hotels with 11,551 guest rooms operated under international brands.

In the reporting period ended June 30, 2004, InnVest acquired nine hotels with 1,528 guest rooms through the execution of two transactions. The first transaction was the acquisition of the 196-room Holiday Inn Dartmouth, Nova Scotia, which closed on April 5, 2004. The second transaction was a portfolio acquisition that was comprised of nine hotels with 1,525 rooms, seven of which are Holiday Inns located in Ontario, one of which is a Holiday Inn located in Calgary, Alberta and one being a Quality Hotel located in Regina, Saskatchewan. This transaction closed in two stages. Eight hotels were acquired on April 7, 2004 and the ninth hotel was acquired on July 2, 2004. This acquisition was funded through the April 2, 2004 issuance of trust units and convertible debentures and through the issuance of long-term debt.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting principles used in these financial statements are consistent with those used in the annual consolidated financial statements, except for the changes in accounting policies noted below. These financial statements do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements.

Revenues earned from hotel operations fluctuate throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months, and the first quarter being the lowest as leisure travel tends to be lower at that time of the year.

CHANGES IN ACCOUNTING POLICIES

Impairment of long-lived assets

Effective January 1, 2004, the REIT adopted the new CICA standard with respect to accounting for the impairment of long-lived assets, which has been applied on a prospective basis. This new standard requires that long-lived assets be reviewed by management on a regular basis for impairment to determine if any events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. If it is determined that the net recoverable amount of a hotel property is less than its carrying value, the hotel property is written down to its fair value. Net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the hotel property. The adoption of this new standard did not have an impact on the REIT’s results from operations or financial position.

Hedging relationships

Effective January 1, 2004, InnVest adopted the new CICA guideline with respect to accounting for hedging relationships. The guideline increases the documentation and monitoring required for hedging strategies to be eligible for hedge accounting treatment. The REIT currently has a fixed price contract in place which hedges the cash flows related to utility costs on certain of its properties. The REIT had the appropriate documentation in place for this hedge at the inception of the hedge and throughout the six-month period ended June 30, 2004. The adoption of this new standard did not have an impact on the REIT’s results from operations or financial position.

2. ASSET ACQUISITIONS

On April 5, 2004, the REIT purchased the Holiday Inn Dartmouth, Nova Scotia, and on April 7, 2004 the REIT purchased eight hotels, of which six are Holiday Inn hotels located in Ontario, one Holiday Inn hotel located in Alberta and one Quality Hotel located in Saskatchewan (the “Acquired Hotels”).

Each of the vendors of the acquired hotels is considered a related party of the REIT as defined in the Declaration of Trust of the REIT. As a result, the Trustees of the REIT established an independent committee comprised of the REIT’s Independent Trustees as defined in the Declaration of Trust to assess the transaction. The independent committee retained its own legal counsel for the purpose of this assessment. The acquisitions have been recorded at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

In compliance with their obligations under the Declaration of Trust, the Independent Trustees retained various independent third party professionals whom they relied upon in their assessment including an appraiser, financial advisor, structural engineer and environmental consultant. Upon completion of their assessment and review of the reports prepared by the independent third party professionals, the Independent Trustees recommended the approval of, and the trustees of the REIT unanimously approved, the acquisitions.

The net assets acquired are as follows:

Cash	$ 1,090
Current assets	2,180
Hotel properties	114,547
	117,817
Future income tax liability	(4,745)
Assumption of existing long-term lease	(2,052)
Current liabilities	(2,505)
	$ 108,515

The consideration paid consists of the following:	
Cash	$ 103,084
Payment of land transfer tax and other acquisition costs	5,431
	$ 108,515

The REIT is continuing to evaluate the fair value of the net assets acquired, and based on this on-going evaluation, the purchase price allocation may be adjusted in future periods.

3. HOTEL PROPERTIES

	Cost	Accumulated Depreciation	June 30, 2004 Net Book Value	Dec. 31, 2003 Net Book Value
Land	**$ 69,848**	**$ –**	**$ 69,848**	$ 58,801
Buildings	**852,008**	**37,451**	**814,557**	728,748
Furniture and equipment	**69,911**	**20,577**	**49,334**	40,713
	$ 991,767	**$ 58,028**	**$ 933,739**	$ 828,262

4. DEFERRED FINANCING AND OTHER ASSETS

	Cost	Accumulated Depreciation	June 30, 2004 Net Book Value	Dec. 31, 2003 Net Book Value
Deferred financing	**$ 10,534**	**$ 2,929**	**$ 7,605**	$ 5,217
Other assets	**609**	**33**	**576**	229
	$ 11,143	**$ 2,962**	**$ 8,181**	$ 5,446

5. LONG-TERM DEBT

	June 30, 2004	December 31, 2003
Mortgages payable	**$ 357,969**	$ 310,926
Capital lease obligation	**2,052**	–
	360,021	310,926
Less: current portion	**7,446**	7,043
Total long-term debt	**$ 352,575**	$ 303,883

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At June 30, 2004, long-term debt had a weighted average interest rate of 7.2% (December 31, 2003 - 7.4%). The long-term debt is repayable in blended monthly payments of principal and interest totalling $2,721 (December 31, 2003 - $2,528) per month, and matures at various dates from January 1, 2005 to October 1, 2017.

Scheduled repayment of long-term debt is as follows:

2004 (remainder of the year)	$ 3,807
2005	8,030
2006	138,628
2007	4,397
2008	154,230
Thereafter	50,929
	$ 360,021

The current portion of long-term debt on the balance sheet is based on the twelve months ended June 30, 2005, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of the REIT's long-term debt at June 30, 2004 was approximately $364,410 (December 31, 2003 - $314,604). This estimate was determined by discounting expected cash flows at the interest rates currently being offered to the REIT for debt of the same remaining maturities.

Long-term debt includes $52,554 (December 31, 2003 - $39,191) of mortgages payable, which are subject to floating interest rates. Interest expense will increase by $526 for every 1% increase in the base Bankers' Acceptance rate.

The REIT has a $100,000 mortgage loan facility with its main mortgage lender of which $47,226 is available to refinance mortgage debts held by its various other lenders, as they mature.

6. UNITHOLDERS' EQUITY

The REIT is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from the REIT. All units are of the same class with equal rights and privileges.

	Units	Amount
Balance at December 31, 2002	41,075,910	$ 387,744
Units issued under trustee compensation plan	6,810	60
Units issued under distribution reinvestment plan	14,027	123
Costs incurred regarding the distribution reinvestment plan	–	(19)
Balance at June 30, 2003	41,096,747	$ 387,908
Balance at December 31, 2003	41,247,862	$ 389,310
Units issued under trustee compensation plan	7,578	83
Units issued under distribution reinvestment plan	136,354	1,448
Units issued under public offering	4,187,000	45,281
Units issued on conversion of debentures	49,301	535
Balance at June 30, 2004	45,628,095	$ 436,657

TRUSTEE COMPENSATION PLAN

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then current market price of the units). The REIT has set aside 100,000 units in reserve for this purpose. During the six months ended June 30, 2004, there were 7,578 units (June 30, 2003 – 6,810 units) issued under the Trustee Compensation Plan.

EXECUTIVE COMPENSATION PLAN

The senior executives participate in the executive compensation plan under which units are granted by the Board of Trustees from time to time. The REIT has reserved a maximum of 1,000,000 units for issuance under the plan. A unit granted through the plan entitles the holder to receive on the vesting date the then current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into REIT units. The payment will be satisfied through the issuance of units.

On July 17, 2002, the Board of Trustees approved the granting of 49,500 units to the senior executives for services rendered. The units granted on July 17, 2002 vest equally over a three year period on each annual anniversary date of grant. On July 17, 2003, 16,500 of the originally granted units along with 1,983 units accumulated from distributions vested.

The following table summarizes the status of the executive compensation plan at June 30, 2004:

Date	Unvested Executive Units	Units Accumulated from Distributions	Total Units
July 17, 2002	49,500	9,867	59,367
July 17, 2003 – units vested	(16,500)	(1,983)	(18,483)
	33,000	7,884	40,884

DISTRIBUTION REINVESTMENT PLAN ("DRIP")

The REIT has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from the REIT automatically reinvested in additional units. Unitholders who so elect will receive a further bonus distribution of units equal in value to 3% of each distribution that was reinvested

7. CONVERTIBLE DEBENTURES

The details of the two series of convertible debentures are outlined in the table below:

	Issue Date	Maturity Date	Interest Rate	Face Amount	Converted to Trust Units	Amount Outstanding	Accretion	Total
Initial Debentures (a)	July 26, 2002	June 30, 2007	9.75%	$ 75,000	$ 530	$ 74,470	$ 931	$ 75,401
Series A Debentures (b)	April 2, 2004	April 15, 2011	6.25%	57,500	–	57,500	102	57,602
				$132,500	$ 530	$131,970	$1,033	$133,003

(a) Initial Debentures

The Initial Debentures bear interest at the rate of 9.75% per annum payable semi-annually in arrears and mature on June 30, 2007. Each $1 principal amount of the initial debentures is convertible at the option of the holder into 93.0233 units (representing a conversion price of $10.75 per unit). These convertible debentures are redeemable, in whole or from time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. The REIT has the option to satisfy its obligation to pay the principal amount of these convertible debentures due at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable. During the six months ended June 30, 2004, 49,301 units were issued for debentures at a conversion price of $10.75 per unit.

In accordance with GAAP, the holder conversion option was valued separately from the convertible debentures at $2,850, being the estimated fair market value of the option on the date the security was issued. The debenture discount equal to the value of the option is being accreted to Unitholders' Equity over the term of the convertible debentures. During the six months ended June 30, 2004, $5 was reclassified for the accretion attributable to the converted debentures.

(b) Series A Debentures

On April 2, 2004, the REIT raised a total amount of $57,500 in convertible debentures, which bear interest at an annual rate of 6.25% payable semi-annually in arrears on April 15 and October 15 in each year, commencing October 15, 2004. These convertible debentures have a term of seven years and each $1 principal amount are convertible at the option of the holder, into 80 units (representing the conversion price of $12.50 per unit). The holder conversion option was valued separately from the

convertible debentures at $2,875. The holder conversion option is being accreted to Unitholders' Equity over the term of the convertible debentures.

The convertible debentures balances have been recorded as equity as the REIT has the ability to satisfy its obligations (principal and interest) under the terms of such instrument through the issue of units.

8. PER UNIT INFORMATION

Three months ended June 30,		**2004**		2003
		Weighted Average Units		Weighted Average Units
Net income	**$ 9,695**	**45,445,996**	$ (6,914)	41,087,537
Convertible debenture interest and accretion	**(2,954)**	**–**	(1,984)	–
Net income – basic	**$ 6,741**	**45,445,996**	$ 4,930	41,087,537
Dilutive effect of executive compensation plan	**–**	**38,466**	–	20,842
Net income – diluted	**$ 6,741**	**45,484,462**	$ 4,930	41,108,379

Six months ended June 30,		**2004**		2003
		Weighted Average Units		Weighted Average Units
Net income	**$ 6,827**	**43,369,365**	$ 4,560	41,083,668
Convertible debenture interest and accretion	**(4,934)**	**–**	(3,968)	–
Net income – basic	**$ 1,893**	**43,369,365**	$ 592	41,083,668
Dilutive effect of executive compensation plan	**–**	**37,962**	–	20,842
Net income – diluted	**$ 1,893**	**43,407,327**	$ 592	41,104,510

Distributable income per unit calculations are based on the following (Note 9):

Three months ended June 30,		**2004**		2003
		Weighted Average Units		Weighted Average Units
Distributable income – basic	**$ 12,207**	**45,445,996**	$ 10,019	41,087,537
Convertible debentures interest	**2,700**	**11,426,343**	–	–
Dilutive effect of executive compensation plan	**–**	**38,466**	–	20,842
Distributable income – diluted	**$ 14,907**	**56,910,805**	$ 10,019	41,108,379

Six months ended June 30,		**2004**		2003
		Weighted Average Units		Weighted Average Units
Distributable income – basic	**$ 12,986**	**43,369,365**	$ 11,128	41,083,668
Dilutive effect of executive compensation plan	**–**	**37,962**	–	20,842
Distributable income – diluted	**$ 12,986**	**43,407,327**	$ 11,128	41,104,510

The convertible debentures have been excluded from certain diluted calculations because the impact of this conversion would not be dilutive.

9. DISTRIBUTABLE INCOME

Distributions to unitholders are computed based on distributable income as defined by the Declaration of Trust.

Distributable income means net income in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation and amortization, amortization of fair value debt adjustment and future income tax recovery, excluding any gains or losses on the disposition of real property and future income taxes, deducting the amount calculated, at 4% of hotel revenues, for the reserve for the replacement of furniture, fixtures and equipment and capital improvements, and the interest on convertible debentures that is not included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

Three months ended June 30,	2004	2003
Net income	$ 9,695	$ 6,914
Add (deduct)		
Depreciation and amortization	9,372	8,027
Amortization of fair value debt adjustment	(342)	(341)
Future income taxes	(990)	(542)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(2,900)	(2,253)
Non-cash executive and trustee compensation	72	42
Convertible debentures interest	(2,700)	(1,828)
	2,512	3,105
Distributable income	12,207	10,019
Distributions in excess of distributable income	606	1,537
Distributions	$ 12,813	$ 11,556
Distributable income per unit – basic	$ 0.269	$ 0.244
– diluted	$ 0.262	$ 0.244

Six months ended June 30,	2004	2003
Net income	$ 6,827	$ 4,560
Add (deduct)		
Depreciation and amortization	17,600	15,991
Amortization of fair value debt adjustment	(684)	(682)
Future income taxes	(1,616)	(1,084)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(4,760)	(4,145)
Non-cash executive and trustee compensation	144	144
Convertible debentures interest	(4,525)	(3,656)
	6,159	6,568
Distributable income	12,986	11,128
Distributions in excess of distributable income	11,446	11,981
Distributions	$ 24,432	$ 23,109
Distributable income per unit – basic	$ 0.299	$ 0.271
– diluted	$ 0.299	$ 0.271

Distributable income is a measure of cash flow that is not required under Canadian generally accepted accounting principles, and, accordingly, may not be comparable to similar measures used by other issuers. Distributable income per unit has been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

10.MANAGEMENT AGREEMENTS

On July 26, 2002, the REIT entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement ("the Agreements") with Westmont Hospitality Management Canada Limited ("Westmont"). Westmont is controlled by a minority unitholder of the REIT.The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire July 25, 2012. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross revenues during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of $1.25 per unit. No management incentive fees were paid in the period.

In addition to the base management fee and incentive fee, Westmont is entitled to reasonable fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting services, reasonable out-of-pocket costs and expenses, (other than general and administrative expenses or overhead costs except as otherwise provided in the Administrative Services Agreement) and project management and general contractor service fees related to hotel renovations managed by Westmont.

During the three and six months ended June 30, 2004 and 2003, the fees charged to the REIT pursuant to the Agreements were as follows:

Three months ended June 30,		2004		2003
Management fees	**$**	**2,447**	$	1,896
Accounting services		**477**		425
(included in hotel operating expenses)				
Administration services		**139**		169
(included in corporate and administrative services)				
Project management and general contractor services		**134**		38
(capitalized in hotel properties)				
	$	**3,197**	$	2,528

Six months ended June 30,		2004		2003
Management fees	**$**	**4,017**	$	3,497
Accounting services		**915**		854
(included in hotel operating expenses)				
Administration services		**263**		281
(included in corporate and administrative services)				
Project management and general contractor services		**221**		136
(capitalized in hotel properties)				
	$	**5,416**	$	4,768

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT, were $76 (June 30, 2003 - $161). Included in accounts payable and accrued liabilities are amounts outstanding at June 30, 2004 totalling $1,118 (December 31, 2003 - $670).

11. SEGMENTED FINANCIAL INFORMATION

The REIT operates hotel properties throughout Canada. Information related to these properties by geographic segment is presented below. The REIT primarily evaluates operating performance based on hotel operating income. All key financing, investing and capital allocation decisions are centrally managed.

	Western	Ontario	Quebec	Atlantic	Total
Three months ended June 30, 2004					
Hotel revenues	**$ 8,442**	**$ 41,563**	**$ 14,075**	**$ 8,418**	**$ 72,498**
Hotel expenses	**5,837**	**27,680**	**8,777**	**5,278**	**47,572**
Hotel operating income	**$ 2,605**	**$ 13,883**	**$ 5,298**	**$ 3,140**	**$ 24,926**
Three months ended June 30, 2003					
Hotel revenues	$ 6,886	$ 28,261	$ 14,656	$ 6,515	$ 56,318
Hotel expenses	4,642	18,493	8,657	3,610	35,402
Hotel operating income	$ 2,244	$ 9,768	$ 5,999	$ 2,905	$ 20,916
Six months ended June 30, 2004					
Hotel revenues	**$ 15,234**	**$ 64,333**	**$ 25,080**	**$ 14,364**	**$ 119,011**
Hotel expenses	**11,364**	**43,896**	**16,981**	**10,385**	**82,626**
Hotel operating income	**$ 3,870**	**$ 20,437**	**$ 8,099**	**$ 3,979**	**$ 36,385**
Six months ended June 30, 2003					
Hotel revenues	$ 11,996	54,426	$ 26,164	$ 11,037	$ 103,623
Hotel expenses	9,035	37,825	16,974	6,917	70,751
Hotel operating income	$ 2,961	$ 16,601	$ 9,190	$ 4,120	$ 32,872
Capital expenditures					
Three months ended June 30, 2004	**$ 672**	**$ 2,760**	**$ 988**	**$ 1,233**	**$ 5,653**
Three months ended June 30, 2003	$ 220	$ 1,583	$ 322	$ 114	$ 2,239
Six months ended June 30, 2004	**$ 805**	**$ 3,467**	**$ 1,282**	**$ 1,466**	**$ 7,020**
Six months ended June 30, 2003	$ 487	$ 2,896	$ 754	$ 122	$ 4,259
Hotel properties					
June 30, 2004	**$ 75,287**	**$ 557,679**	**$ 187,995**	**$ 112,778**	**$ 933,739**
December 31, 2003	$ 65,538	$ 471,764	$ 190,184	$ 100,776	$ 828,262

12. SUBSEQUENT EVENT

On July 2, 2004, the REIT purchased the Holiday Inn Oshawa, Ontario for $13,400. Some of the investors in the vendors are affiliates with Westmont. In addition, Westmont Hospitality Management Ltd., an affiliate of Westmont, was previously the manager of this hotel. This acquisition was partially funded through an advance of $6,500 of long-term mortgage financing.

13. COMPARATIVE INFORMATION

Certain prior year amounts have been reclassed to conform to current presentation.

EXECUTIVE OFFICE

5090 Explorer Drive
7th Floor
Mississauga, Ontario
L4W 4T9
Phone: 905-206-7100
Fax: 905-206-7114
Web: www.innvestreit.com

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario
M5J 2Y1
Phone: 1-800-564-6253

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: INN.UN

InnVest
R · E · I · T