InnVest
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2003 SECOND QUARTER REPORT TO UNITHOLDERS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003

Letter to Unitholders

The second quarter was a very difficult period for the Canadian Hospitality market. The impact of Severe Acute Respiratory Syndrome ("SARS") led to sharp decreases in room demand in Ontario, with the majority of the weakness affecting the Greater Toronto Area ("GTA"). Despite these difficulties, the balance of InnVest REIT's portfolio, while performing below budget expectations, was on par with the prior year results demonstrating the benefits of a geographically diverse, limited service portfolio.

In order to deal with the current environment, our priority is to maximize revenues through sales and marketing initiatives, to hold the line on room rates and to control operating costs. Our strategy of maintaining rates resulted in less erosion of average daily rate ("ADR") in InnVest's portfolio in virtually all geographical regions and has put us in a strong position to recover when the market improves.

For the quarter, InnVest's revenue per available room ("RevPAR") declined 12.1% compared to a market decline of 15.7%. When adjusted to eliminate approximately $1.4 million of one-time crew business in Edmonton, InnVest's RevPAR decrease is reduced to 9.9%. InnVest outperformed the market in all markets after adjusting for this one-time crew business. On the expense side, we reduced our hotel expenses in the quarter by 5.5%. Expense savings were realized in all departments.

We continue to maintain the quality of our properties through our capital program. During the quarter, we spent $2.2 million on capital items which is in line with the forecast, and we plan to spend an additional $3.5 million on capital improvements this year.

We are continually in discussions regarding new acquisition candidates and have an $80 million of capacity to spend on acquisitions when the right opportunities arise. We are well positioned to identify attractive acquisition candidates and are committed to make acquisitions that are accretive to cash flow and demonstrate long term value.

Overall, while it was a particularly challenging quarter for the industry, we feel that the impact of SARS is short term in nature and not reflective of stabilized performance of our hotels. 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

In the second quarter hotel revenues were $56.3 million, $7.5 million or 11.8% below last year. This reflects an 8.2 percentage point reduction in occupancy rates to 61.0% and a relatively flat ADR of $81.67. As a result, RevPAR of $49.82 was 12.1% below last year. Our Ontario properties represented 80% of the decline and Edmonton made up the remainder. Of the Ontario variance, the GTA made up approximately 65% of the shortfall. The two downtown Toronto hotels and our Toronto airport hotel were most impacted. The other 35% can mainly be attribute to our Windsor and Ottawa properties. The Edmonton shortfall was due to the loss of one-time crew business from an oil & gas project. Versus our forecast, revenues were $8.4 million lower or 13%.

Hotel expenses for the second quarter were $35.4 million, 5.5% lower than a year ago. The decrease is a result of lower occupancy and cost saving initiatives started in 2002 and further measures taken in response to the weaker demand partially offset by expense savings.

Distributable income for the quarter was $10.0 million or 24.4 cents per unit on a basic basis, compared with the forecast of $14.25 million or 34.7 cents per unit. The shortfall reflects lower operating income partially offset by lower interest expenses, and higher than forecast franchise business income. Lower interest expense was due to locking in fixed rate financing at rates below our forecast. During the quarter, $11.6 million or 28.13 cents per unit was distributed to Unitholders, consistent with the forecast.

InnVest's balance sheet remains strong with $15.4 million of cash including $11.9 million of cash earmarked for future furniture, fixture and equipment and capital improvements. Our financial leverage at quarter end was slightly lower than at the end of the first quarter at 38.6% debt to gross asset value, well within the 50% limit. We also have significant unutilized credit facilities to support our business plan.

Outlook

Looking ahead, we expect that the operating performance that we experienced in the second quarter of 2003 will continue for the balance of the year. We expect to see continued weakness in our Ontario hotels for the balance of 2003, with the remainder of the portfolio achieving combined results relatively unchanged from 2002. We view the impact of SARS on 2003 results as short term and not indicative of stabilized performance of our hotels. InnVest continues to be well positioned as the industry recovers due to the geographic diversity and limited service nature of our portfolio.

Our short term priority continues to be to maximize revenues through sales and marketing initiatives, maintaining our room rates, and to continue to control operating costs. Our longer term objective is to provide stable and growing cash distributions and to maximize the long term unit value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are accretive to earnings and cash flow and that provide long term value to the REIT. While we monitor distributions on a monthly basis, we are comfortable with the current distribution level.

(signed)

Kenneth Gibson
President and Chief Executive Officer
August 25, 2003

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 months and six months ended June 30, 2003, with a comparison with (1) the results of operations of the acquired hotel properties and franchise business during the comparable periods in 2002 and (2) the REIT's forecast provided in its initial public offering ("IPO") prospectus dated July 18, 2002.

The following management's discussion and analysis 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, 2003, and with the audited consolidated financial statements and the notes thereto for the 159-day period from July 26, 2002 to December 31, 2002 and with the audited statements of net income of the acquired hotel portfolio and the forecast contained in the IPO.

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.

Forward-looking information

The following discussion, as well as other sections within this quarterly report, 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 in the Management's Discussion and Analysis contained in the 2002 annual report, which is filed with SEDAR and posted on InnVest's Web site at www.InnVestreit.com.

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.

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, Average Daily Rate and Revenue per Available Room. These key performance indicators for the REIT by geographic region in Canada for the three and six months ended June 30, 2003 are as follows:

Three months ended June 30, 2003

	Ontario	Quebec	Atlantic	Western	Total
Occupancy	57.6%	68.4%	66.2%	58.0%	61.0%
Average Daily Rate	$ 84.62	$ 86.58	$ 79.29	$ 66.07	$ 81.67
Revenue per Available Room	$ 48.71	$ 59.21	$ 52.51	$ 38.30	$ 49.82

Six months ended June 30, 2003

	Ontario	Quebec	Atlantic	Western	Total
Occupancy	56.1%	63.3%	59.5%	51.3%	57.3%
Average Daily Rate	$ 83.49	$ 83.52	$ 74.74	$ 65.10	$ 79.87
Revenue per Available Room	$ 46.83	$ 52.84	$ 44.50	$ 33.41	$ 45.77

Seasonality

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

Comparison to Previous Year

InnVest has unaudited results for the three and six months ended June 30, 2003. The following is therefore a year over year comparison using unaudited first and second quarter figures for 2002, which were included in the annual numbers reported in the IPO dated July 18, 2002.

Hotel Operating Results

	Three months ended June 30 (1) 2003	2002	Var %	Six months ended June 30 (1) 2003	2002	Var %
Occupancy	**61.0%**	69.1%	(11.7%)	**57.3%**	62.1%	(7.7%)
Average daily rate	**$ 81.67**	$ 81.87	(0.2%)	**$ 79.87**	$ 79.28	0.7%
Revenue per available room	**$ 49.82**	$ 56.65	(12.1%)	**$ 45.77**	$ 49.23	(7.0%)
Room revenue	**$ 52,363**	$ 59,333	(11.7%)	**$ 95,698**	$ 102,567	(6.7%)
Total revenue	**$ 56,318**	$ 63,847	(11.8%)	**$ 103,623**	$ 111,122	(6.7%)
Gross operating profit (2)	**$ 26,771**	$ 32,147	(16.7%)	**$ 44,670**	$ 50,823	(12.1%)
Gross operating profit margin	**47.5%**	50.4%	(5.6%)	**43.1%**	45.7%	(5.7%)
Hotel operating income	**$ 20,916**	$ 26,369	(20.7%)	**$ 32,872**	$ 39,249	(16.2%)
Hotel operating income margin	**37.1%**	41.3%	(10.2%)	**31.7%**	35.3%	(10.2%)

(1) Unaudited data for the three and six months ended June 30, 2003 and unaudited data for the comparative periods, which were adjusted to reflect the current management fee arrangement.
(2) Gross operating profit is defined as hotel revenues less hotel operating expenses and management fees.

Hotel Revenues

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 and account for 7.0% (2002, 7.1%) of the total revenue of the hotel portfolio for the three months ended June 30, 2003, and 7.6% (2002, 7.7%) for the six months ended June 30, 2003.

Room revenues for the three months ended June 30, 2003 were $52.4 million, 11.7% lower than the $59.3 million generated for the same period in 2002, primarily reflecting the impact of Severe Acute Respiratory Syndrome ("SARS") and the resulting decrease in tourism and business travel. In the second quarter of 2003, occupancy for the hotel portfolio decreased by 11.7%, while ADR decreased slightly by $0.20 for a RevPAR decrease of 12.1% compared to 2002. The decline in room revenue by geographical region for the three months ended June 30, 2003 is as follows:

	Hotels	Rooms	As a % of total	Room revenue change	As a % of total	Adjusted (1) Room revenue change	As a % of total
Greater Toronto Area ("GTA")	10	1,755	15.2%	$ (3,557)	51.0%	$ (3,557)	64.1%
Ontario Non-GTA	45	4,115	35.6%	$ (1,983)	28.5%	$ (1,983)	35.7%
Total Ontario	55	5,870	50.8%	$ (5,540)	79.5%	$ (5,540)	99.8%
Quebec	28	2,544	22.0%	$ (228)	3.3%	$ (228)	4.1%
Atlantic	17	1,315	11.4%	$ 304	(4.4%)	$ 304	(5.5%)
Western	14	1,822	15.8%	$ (1,506)	21.6%	$ (88)	1.6%
Total	114	11,551	100.0%	$ (6,970)	100.0%	$ (5,552)	100.0%

(1) After eliminating one-time crew business for our Edmonton properties of over $1.4 million experienced in the second quarter of 2002.

The 12.1% decrease in RevPAR for the REIT's hotel portfolio for the three months ended June 30, 2003 compares with a 15.7% decrease in RevPAR for the Canadian hotel industry. In the second quarter of 2002 InnVest had over $1.4 million of one-time crew business from an oil & gas project in Edmonton, Alberta. This crew business provided significant room revenue to InnVest's Edmonton hotels through the end of the third quarter in 2002. InnVest outperformed the market in Ontario, Eastern Canada, Quebec and Western Canada after adjusting for the one-time crew business. InnVest's portfolio continued to demonstrate its stability and resiliency in room revenue and total revenue in a difficult operating environment.

For the three months ended June 30, 2003, InnVest's Ontario properties, which account for 50.8% of the InnVest portfolio, contributed to 79.5% of the decline in room revenue. Specifically, the Greater Toronto Area alone, which accounts for only 15.2% of the InnVest portfolio, contributed to 51.0% of the overall decline. If the one-time crew business experienced in the second quarter of 2002 in our Edmonton properties were eliminated almost the entire room revenue decline can be attributed to our GTA and other Ontario properties. These results demonstrate the magnitude of the negative impact of SARS on the portfolio, with Ontario and the GTA being most adversely affected. As for other Ontario properties, our Ottawa and Windsor properties (8 hotels or 945 rooms) accounted for $806 or 40.1% of the $1,983 decline in revenues within this segment, with the remaining decline being absorbed throughout Ontario. The three Toronto hotels which showed the largest room revenue decreases were the Quality Hotel on Bloor, the Quality Hotel on Lombard, and the Quality Suites Toronto Airport. These three hotels accounted for $2.1 million or 38% of the adjusted room revenue decline.

For the six months ended June 30, 2003 room revenues were $95.7 million, 6.7% lower than the $102.6 million generated for the same period in 2002. Occupancy for the hotel portfolio decreased by 7.7% for the first half of 2003, while ADR increased modestly by $0.59 from the prior year for a net RevPAR decrease of 7.0%. The decline in room revenue by geographical region for the six months ended June 30, 2003 is as follows:

	Hotels	Rooms	As a % of total	Room revenue change	As a % of total	Adjusted (1) Room revenue change	As a % of total
Greater Toronto Area ("GTA")	10	1,755	15.2%	$ (3,846)	56.0%	$ (3,846)	90.5%
Ontario Non-GTA	45	4,115	35.6%	$ (1,661)	24.2%	$ (1,661)	39.0%
Total Ontario	55	5,870	50.8%	$ (5,507)	80.2%	$ (5,507)	129.5%
Quebec	28	2,544	22.0%	$ 276	(4.0%)	$ 276	(6.5%)
Atlantic	17	1,315	11.4%	$ 755	(11.0%)	$ 755	(17.7%)
Western	14	1,822	15.8%	$ (2,393)	34.8%	$ 225	(5.3%)
Total	114	11,551	100.0%	$ (6,869)	100.0%	$ (4,251)	100.0%

(1) After eliminating one-time crew business for our Edmonton properties of approximately $2.6 million experienced in the first two quarters of 2002.

The 7.0% decrease in RevPAR (4.6% when adjusted to remove one-time crew business experienced in 2002) for the REIT's hotel portfolio compares with a 4.4% decrease in RevPAR for the limited service sector of the Canadian hotel industry. The overall Canadian hotel industry posted a RevPAR decrease in the first two quarters over 2002 of 8.7%. The one-time crew business from an oil & gas project in Edmonton, Alberta accounted for $2.6 million of business in 2002 that was not repeated in 2003. This crew business provided significant room revenue to InnVest's Edmonton hotels through the end of the third quarter in 2002.

For the six months ended June 30, 2003, InnVest's Ontario properties which accounts for 50.8% of the InnVest portfolio, contributed to 80.2% of the decline in room revenue. Specifically, the GTA alone, which accounts for only 15.2% of the InnVest portfolio, contributed to 56.0% of the overall decline, or 90.5% when the one-time crew business is adjusted for. In fact, our Ontario properties more than account for the entire decline after adjusting for the crew business experienced in 2002. As for other Ontario properties, our Ottawa and Windsor properties (8 hotels or 945 rooms) accounted for $743 or 44.7% of the $1,661 decline in revenues, with the remaining decline being absorbed throughout Ontario.

Hotel Expenses

Hotel expenses for the three months ended June 30, 2003 decreased by 5.5% or $2.1 million, from 2002. Expense savings were realized in all categories. Direct room expenses were lower by $285, as a result of the lower occupancy and cost controls, while administrative and general expenses were lower by $875 reflecting the cost control initiatives introduced in the last half of 2002 and further measures taken as a result of the negative impact of SARS. Energy costs were under last year by $288 as the result of the lower occupancy and a general decline in consumption.

The gross operating profit for the six months ended June 30, 2003 decreased by 12.1% or $6.2 million over last year, as net savings in expenses partially offset the declines in revenues. Savings were realized in all expense categories except energy and direct room expenses. There was an overall increase in electricity prices in Ontario and consumption increases in electricity and natural gas from the effects of the colder than normal winter across the country. Direct room expense increases, particularly wages and benefits amounted to $214 and repairs and maintenance increases of $113, were more than offset by a reduction of $1.2 million in administrative and general expenses achieved through the continuation of ongoing cost control initiatives and further measures taken in response to the current business environment.

Hotel Operating Income

Hotel operating income for the three months ended June 30, 2003 declined to $20.9 million from $26.4 million in the second quarter of 2002, as increases in property taxes and insurance were substantially offset by decreases in operating leases. Fixed charges increased by $77 or 1.3% over 2002 levels.

For the six months ended June 30, 2003 increases in property taxes and insurance were partially offset by decreases in operating leases. Fixed charges increased by $225 or 1.9% over 2002 levels. Increases in property taxes of $522 and insurance of $390 were partially offset by a reduction in operating leases of $687. As a result, hotel operating income declined by $6.4 million from the $39.3 million achieved in 2002 to $32.9 million.

Hotel operating income generated by geographical region, as well as variances for the three months ended June 30, 2003 and 2002 are shown in the table below:

		2003	% of total		2002	% of total		Variance	% change
Greater Toronto Area ("GTA")	$	**1,423**	6.8%	$	4,223	16.0%	$	(2,800)	51.4%
Ontario Non-GTA	$	**8,345**	39.9%	$	9,823	37.3%	$	(1,478)	27.1%
Total Ontario	$	**9,768**	46.7%	$	14,046	53.3%	$	(4,278)	78.5%
Quebec	$	**5,999**	28.7%	$	6,172	23.4%	$	(173)	3.2%
Atlantic	$	**2,904**	13.9%	$	2,851	10.8%	$	53	(1.0%)
Western	$	**2,245**	10.7%	$	3,300	12.5%	$	(1,055)	19.3%
Total	$	**20,916**	100.0%	$	26,369	100.0%	$	(5,453)	100.0%

The SARS effect is the main contributor to the overall decrease in hotel operating income compared to 2002. Hotel operating income decreased $5.5 million or 20.7% compared to the prior year. The GTA and other Ontario properties accounted for the majority of this decrease, with GTA hotel operating income decreasing $2,800 or 66.3%. As for other Ontario properties, our Ottawa and Windsor properties (8 hotels or 945 rooms) accounted for $695 or 47.0% of the $1,478 decline in operating income within this segment, with the remaining decline being absorbed throughout Ontario.

Hotel operating income generated by geographical region, as well as variances for the six months ended June 30, 2003 and 2002 are shown in the table below:

		2003	% of total		2002	% of total		Variance	% change
Greater Toronto Area ("GTA")	$	**3,054**	9.3%	$	6,302	16.0%	$	(3,248)	50.9%
Ontario Non-GTA	$	**13,547**	41.2%	$	15,139	38.6%	$	(1,592)	25.0%
Total Ontario	$	**16,601**	50.5%	$	21,441	54.6%	$	(4,840)	75.9%
Quebec	$	**9,190**	28.0%	$	9,018	23.0%	$	172	(2.7%)
Atlantic	$	**4,120**	12.5%	$	3,912	10.0%	$	208	(3.3%)
Western	$	**2,961**	9.0%	$	4,878	12.4%	$	(1,917)	30.1%
Total	$	**32,872**	100.0%	$	39,249	100.0%	$	(6,377)	100.0%

The SARS effect is again the main contributor to the overall decrease in hotel operating income compared to 2002. Hotel operating income decreased $6,377 or 16.2% compared to the prior year. The GTA and other Ontario properties accounted for the majority of this decrease, with GTA hotel operating income decreasing $3,248 or 51.5%. As for other Ontario properties, our Ottawa and Windsor properties (8 hotels or 945 rooms) accounted for $736 or 46.2% of the $1,592 decline in operating income within this segment, with the remaining decline being absorbed throughout Ontario. When the one-time crew business experienced in Edmonton is adjusted for the entire hotel operating income decline can be attributed to the Ontario properties with the main contributors being the GTA properties.

Comparison to Forecast

The following table summarizes the actual results and the forecast provided in the IPO prospectus dated July 18, 2002 for the hotel portfolio and the franchise business for the three and six months ended June 30, 2003.

Financial Highlights Summary

	Three months ended June 30, 2003			Six months ended June 30, 2003		
	Actual	Forecast	Variance	Actual	Forecast	Variance
Hotel revenues	$ 56,318	$ 64,746	$ (8,428)	$ 103,623	$ 113,393	$ (9,770)
Hotel expenses	35,402	38,528	(3,126)	70,751	73,667	(2,916)
Hotel operating income	20,916	26,218	(5,302)	32,872	39,726	(6,854)
EBITDA (1), (2)	20,800	25,916	(5,116)	32,280	38,882	(6,602)
Net income	$ 6,914	$ 11,426	$ (4,512)	$ 4,560	$ 9,879	$ (5,319)
Net income per unit						
– basic	$ 0.120	$ 0.230	$ (0.110)	$ 0.014	$ 0.144	$ (0.130)
– diluted	$ 0.120	$ 0.230	$ (0.110)	$ 0.014	$ 0.144	$ (0.130)
Net income	$ 6,914	$ 11,426	$ (4,512)	$ 4,560	$ 9,879	$ (5,319)
Add / (deduct)						
Depreciation and amortization	7,661	7,762	(101)	15,259	15,524	(265)
Future income tax recovery	(542)	(542)	–	(1,084)	(1,084)	–
Non-cash executive and trustee compensation	42	–	42	144	–	144
Funds from operations	$ 14,075	$ 18,646	$ (4,571)	$ 18,879	$ 24,319	$ (5,440)
Funds from operations per unit						
– basic	$ 0.343	$ 0.454	$ (0.111)	$ 0.460	$ 0.592	$ (0.132)
– diluted	$ 0.290	$ 0.384	$ (0.094)	$ 0.388	$ 0.500	$ (0.112)
Funds from operations	$ 14,075	$ 18,646	$ (4,571)	$ 18,879	$ 24,319	$ (5,440)
Amortization of fair value debt adjustment	(341)	(341)	–	(682)	(682)	–
Amortization of deferred financing costs	366	363	3	732	726	6
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(2,253)	(2,590)	337	(4,145)	(4,536)	391
Convertible debenture interest	(1,828)	(1,828)	–	(3,656)	(3,656)	–
Distributable income (2)	$ 10,019	$ 14,250	$ (4,231)	$ 11,128	$ 16,171	$ (5,043)
Distributable income per unit (3)						
– basic	$ 0.244	$ 0.347	$ (0.103)	$ 0.271	$ 0.394	$ (0.123)
– diluted	$ 0.244	$ 0.331	$ (0.087)	$ 0.271	$ 0.394	$ (0.123)
Distributions	$ 11,556	$ 11,553	$ 3	$ 23,109	$ 23,106	$ 3
Distributions – per unit	$ 0.2813	$ 0.2813	$ –	$ 0.5625	$ 0.5625	$ –

(1) EBITDA - Earnings before interest, income taxes, capital taxes and depreciation and amortization.
(2) EBITDA and distributable income are measures of earnings and cash flow that are not required under Canadian generally accepted accounting principles, and accordingly, may not be comparable to similar measures used by other organizations.
(3) Distributable income per unit and funds from operations per unit have been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

Hotel Revenues

For the three months ended June 30, 2003, revenues were $56.3 million, which is $8.4 million or 13.0% less than the forecast. The shortfall can be primarily attributed to the outbreak of SARS, particularly in the GTA and to a lesser extent the remainder of Ontario.

For the six months ended June 30, 2003, revenues were $103.6 million, which is $9.8 million or 8.6% less than the forecast. The chart below highlights the negative variance to forecast by geographical region for hotel revenues.

	Hotels	Rooms	As a % of total	Revenue Variance Three months ended June 30	As a % of total	Revenue Variance Six months ended June 30	As a % of total
Greater Toronto Area ("GTA")	10	1,755	15.2%	$ (4,136)	49.1%	$ (4,779)	48.9%
Ontario Non-GTA	45	4,115	35.6%	$ (2,628)	31.2%	$ (2,895)	29.6%
Total Ontario	55	5,870	50.8%	$ (6,764)	80.3%	$ (7,674)	78.5%
Quebec	28	2,544	22.0%	$ (856)	10.1%	$ (888)	9.1%
Atlantic	17	1,315	11.4%	$ (98)	1.2%	$ 80	(0.8%)
Western	14	1,822	15.8%	$ (710)	8.4%	$ (1,288)	13.2%
Total	114	11,551	100.0%	$ (8,428)	100.0%	$ (9,770)	100.0%

Actual total revenues are significantly below forecasted total revenues, mainly as a result of the outbreak of SARS. Ontario which accounts for 50.8% of the InnVest portfolio, contributed to 80.3% and 78.5% of the decline in room revenue for the three months and six months ended June 30, 2003 respectively. Specifically, the Greater Toronto Area alone, which accounts for only 15.2% of the InnVest portfolio, contributed to 49.1% and 48.9% of the overall decline for the three months and six months ended June 30, 2003 respectively. These results demonstrate the magnitude of the negative impact of SARS to the portfolio, relative to the forecast, with Ontario and the Greater Toronto Area being the most adversely affected. As for other Ontario properties, our Ottawa and Windsor properties (8 hotels or 945 rooms) accounted for $977 (or 37.2%) and $1,120 (or 38.7%) of the decline for the three-month and six-month period respectively within this segment, with the remaining revenue declines being absorbed throughout Ontario. The three Toronto hotels which showed the largest revenue decreases relative to forecast were the Quality Hotel on Bloor, the Quality Hotel on Lombard, and the Quality Suites Toronto Airport, which accounted for $2.4 million of the negative variance for the three months ended, and $2.5 million of the negative variance for the six months ended.

Hotel Expenses

For the three months ended June 30, 2003 hotel expenses of $35.4 million were $3.1 million or 8.1% lower than the forecast. Savings were realized in all expense categories as we continued with a program of cost management initiatives implemented in 2002 and further enhanced in 2003 in response to the economic environment.

For the six months ended June 30, 2003 hotel expenses of $70.8 million were $2.9 million or 4.0% lower than the forecast. Savings were realized in all expense categories, with the exception of energy costs. Energy increases were attributable to higher energy costs related to electricity prices in Ontario and increased electricity and natural gas consumption as the result of the colder than normal winter across the country.

Hotel Operating Income

The net effect of the negative revenue variance and the reduction in realized expenses versus the forecast for the three months ended June 30, 2003, is that hotel operating income reported of $20.9 million was $5.3 million under the forecast. For the six months ended June 30, 2003 the hotel operating income was $32.9 million or $6.9 million less than the forecast. The breakdown of the negative variance for the reporting period by geographic region is highlighted in the chart below:

	Three months ended June 30	% of total	Six months ended June 30	% of total
Greater Toronto Area ("GTA")	$ (2,709)	51.1%	$ (3,441)	50.2%
Ontario Non-GTA	$ (1,646)	31.0%	$ (2,064)	30.1%
Total Ontario	$ (4,355)	82.1%	$ (5,505)	80.3%
Quebec	$ (385)	7.3%	$ (495)	7.2%
Atlantic	$ (181)	3.4%	$ (109)	1.6%
Western	$ (381)	7.2%	$ (745)	10.9%
Total	$ (5,302)	100.0%	$ (6,854)	100.0%

Actual achieved hotel operating income was significantly below the amounts forecasted. Consistent with the analysis above, Ontario, and specifically the GTA are the largest negative contributors to the portfolio on a hotel operating income basis. As for other Ontario properties, our Ottawa and Windsor properties (8 hotels or 945 rooms) accounted for $668 (or 40.6%) and $821 (or 39.8%) of the variance for the three-month and six-month period respectively within this segment, with the remaining revenue declines being absorbed throughout Ontario.

Other Income and Expenses

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 second quarter was $14.2 million of expenses, $790 less than the forecast. This improvement from the forecast reflects interest costs that were $506 below forecast and franchise business income that was $172 above forecast. Depreciation and amortization was below the forecast by $98, with the remaining variance accounted for in corporate and administrative and other income.

For the six months ended June 30, 2003 the net amount of other income and expenses was $28.8 million of expenses, $1.5 million less than forecast. The positive variance versus the forecast reflects interest costs that were $1.0 million below forecast and franchise business income that was $229 above forecast. Depreciation and amortization was below the forecast by $259, the cumulative result of less refurbishment work completed in 2002 than was forecast.

The total savings in interest expense through June 30, 2003 to the forecast was $1.7 million. The savings are being achieved by the locking in interest rates on $211 million of mortgage debt for an average term of 5.1 years at base rates of 0.74% less than forecast in the IPO. This will continue for the remainder of the term of the mortgages.

Income Taxes

Income tax recovery for the most recent three and six-month reporting periods were $225 and $450 respectively as forecast. This includes the future income tax recovery recorded as a result of the difference between depreciation for accounting purposes and the lesser amount allotted as capital cost allowance for income tax purposes for the reporting period, and large corporations tax.

Current income taxes and the draw down on future income taxes are consistent with the forecast. The REIT previously estimated that approximately 21% of the planned level of distributions made in 2003 will not be currently taxable to the Unitholder. As the result of the lower than forecast operating income, the REIT now estimates that in excess of 30% of the planned distributions will be taxable to the Unitholders.

Net Income

Three months ended June 30, 2003

Net income for the most recent three-month reporting period was $6.9 million or $0.120 per unit - basic (diluted - $0.120) versus the forecast of $11.4 million or $0.230 per unit - basic (diluted - $0.230).

Six months ended June 30, 2003

Net income year to date was $4.6 million or $0.014 per unit - basic (diluted - $0.014) versus the forecast of $9.9 million or $0.144 per unit - basic (diluted - $0.144).

Distributable Income

Three months ended June 30, 2003

Distributable income for the three-month reporting period was $10.0 million or $0.244 per unit - basic (diluted - $0.244), compared with the forecast of $14.3 million or $0.347 per unit – basic (diluted - $0.331). Cash distributions for the reporting period were $11.6 million or $0.2813 per unit, consistent with the forecast distributions.

Six months ended June 30, 2003

Distributable income year to date was $11.1 million or $0.271 per unit - basic (diluted - $0.271), compared with the forecast of $16.2 million or $0.394 per unit – basic (diluted - $0.394). Cash distributions for the reporting period were $23.1 million or $0.5625 per unit, consistent with the forecast distributions.

Changes in Financial Condition

Investing Activities

During the three and six-month reporting periods, hotel properties and licence contracts decreased by $5.4 million and $11.0 million respectively, being the net of capital additions and depreciation.

In the reporting periods, other investing activities were limited to capital expenditures as part of the regular refurbishment program and the setting aside of 4% of revenues for the furniture, fixture and equipment reserve ("FF&E reserve") shown as restricted cash in the financial statements. For the three and six months ended June 30, 2003 a total amount of $2.2 million and $4.3 million respectively was spent on capital items, which was in line with the forecast. The FF&E reserve increased by $1.9 million in the first quarter and $2.3 million in the second quarter (before capital expenditures).

The normal reserve for replacement of furniture, fixtures and equipment and capital improvements is managed over the longer term. This reserve is maintained to ensure that the properties remain competitive in their markets. During the balance of 2003, approximately $3.5 million will be spent as part of the refurbishment program.

The REIT intends to follow a program of completing a significant amount of its property refurbishing work in the fourth and first quarters in order to minimize the revenue reduction caused by having rooms out of service.

Financing Activities

During the three months ended June 30, 2003 property mortgages on two hotels totaling $5.0 million matured. InnVest has a mortgage loan facility available to repay mortgages as they mature, however these two mortgages were repaid using a combination of borrowing on the operating line of $4.3 million and $719 in cash. It is anticipated that the mortgage loan facility will be drawn upon during the third or fourth quarters of this year, depending on the requirement for cash resources. Total regular scheduled principal payments during the reporting period were $2.0 million, for total principal repaid of $2.7 million including the temporary use of cash.

Total regularly scheduled principal for the six-month period was $3.9 million and the total repayment including the $719 temporary payment was $4.6 million.

Liquidity and Capital Resources

Liquidity was generated from cash flow from hotel operations, an available bank operating line and by the ability to finance certain unencumbered or under-leveraged assets. Generated funds from operations before changes in working capital were $14.1 million for the second quarter and $18.9 million for the six months ended June 30, 2003 compared with the forecast of $18.6 million for the second quarter and $24.3 million year to date.

During the six-month reporting period, the REIT distributed $23.1 million or $0.5625 per unit at a rate of $0.09375 per month and a regular monthly distribution of $0.09375 per unit for the month of June 2003 was paid in July 2003.

The REIT had unused operating loan availability of $20.7 million at June 30, 2003 and four hotel properties that remain unencumbered that could generate approximately $6.3 million in mortgage proceeds based on 50% loan to value. The balance owing of $4.3 million at June 30, 2003 was included in long-term debt and a loan draw to replace the debt with mortgage financing of $5.0 million was outstanding at the reporting date. The REIT also has an unused acquisition facility of $40 million available to acquire hotel properties and an unused loan facility of $24 million to fund 50% of capital expenditures incurred.

The REIT has a $100 million mortgage loan facility with its main mortgage lender available to repay mortgage debts held by its various other lenders as they mature. The remaining availability of this facility is $94.3 million. Consequently, the REIT has minimal refinancing risk until 2006.

Outlook

The SARS outbreak which occurred late in the first quarter and the second outbreak late in May continued to severely impact tourism and business travel in the Greater Toronto Area and to a lesser extent the rest of Ontario and Canada during the second quarter.

As a result of InnVest's diverse portfolio of hotels across Canada, InnVest was subject to reduced risk exposure to the SARS outbreak, as it was mainly centered in Ontario and the GTA. Further, with InnVest's concentration in limited service hotels, which inherently have a lower fixed cost structure than mid service and full service hotels, InnVest is subject to lower operational risk relative to other segments of the industry.

We expect to see continued weakness in InnVest's Ontario hotels for the balance of 2003, with the remainder of the portfolio achieving combined results relatively unchanged from 2002. We view the impact of SARS on 2003 as short term and not indicative of stabilized performance of our hotels. InnVest is well positioned as the industry recovers due to the geographic diversity and limited service nature of our portfolio. In order to deal with the current environment, our priority continues to be to maximize revenues through sales and marketing initiatives, maintaining room rates and to continue to control operating costs.

InnVest R · E · I · T

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)		**June 30, 2003**		December 31, 2002
		(unaudited)		
Assets				
Current Assets				
Cash	$	**3,467**	$	26,730
Accounts receivable		**9,083**		7,499
Prepaid expenses and other assets		**6,164**		3,865
		18,714		38,094
Restricted cash		**11,961**		12,075
Hotel properties (Note 2)		**839,972**		850,314
Licence contracts		**25,091**		25,749
Deferred financing costs		**5,948**		6,680
	$	**901,686**	$	932,912
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	$	**22,621**	$	18,558
Distributions payable		**3,851**		3,851
Acquisition related liabilities		**2,253**		9,275
Current portion of long-term debt (Note 3)		**7,351**		8,976
		36,076		40,660
Long-term debt (Note 3)		**306,885**		310,486
Future income tax liability		**120,649**		121,733
		463,610		472,879
Equity				
Unitholders' equity		**362,764**		385,033
Convertible debentures (Note 5)		**75,312**		75,000
		438,076		460,033
	$	**901,686**	$	932,912

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, 2003**	Six months ended June 30, 2003
Hotel revenues	$ **56,318**	$ 103,623
Hotel expenses		
Operating expenses	**27,641**	55,446
Property taxes, rent and insurance	**5,865**	11,808
Management fees	**1,896**	3,497
	35,402	70,751
Hotel operating income	**20,916**	32,872
Other (income) and expenses		
Interest on mortgages	**5,589**	11,189
Corporate and administrative	**764**	1,510
Capital tax	**495**	990
Franchise business income	**(582)**	(799)
Other income	**(66)**	(119)
Depreciation and amortization	**8,027**	15,991
	14,227	28,762
Income before income tax expense	**6,689**	4,110
Income tax expense (recovery)		
Current	**317**	634
Future	**(542)**	(1,084)
	(225)	(450)
Net income	$ **6,914**	$ 4,560
Net income per unit - basic (Note 6)	$ **0.120**	$ 0.014
- diluted (Note 6)	$ **0.120**	$ 0.014

The accompanying notes are an integral part of these consolidated financial statements.
There are no comparative figures as the REIT began operations on July 26, 2002.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(in thousands of dollars) (Unaudited)	**Three months ended June 30, 2003**	Six months ended June 30, 2003
Balance at beginning of the period	$ **369,225**	$ 385,033
Distribution reinvestment plan units issued (Note 5)	**123**	123
Costs incurred regarding the distribution reinvestment plan (Note 5)	**–**	(19)
Executive and trustee compensation (Note 5)	**42**	144
Net income	**6,914**	4,560
Convertible debentures interest and accretion	**(1,984)**	(3,968)
Unit distributions	**(11,556)**	(23,109)
Closing unitholders' equity	$ **362,764**	$ 362,764

The accompanying notes are an integral part of these consolidated financial statements.
There are no comparative figures as the REIT began operations on July 26, 2002.

InnVest R·E·I·T

(in thousands of dollars) (Unaudited)		**Three months ended June 30, 2003**		Six months ended June 30, 2003
Operating Activities				
Net income	$	**6,914**	$	4,560
Add (deduct) items not affecting funds from operations				
Depreciation and amortization		**7,661**		15,259
Future income tax recovery		**(542)**		(1,084)
Non-cash executive and trustee compensation		**42**		144
Funds from operations		**14,075**		18,879
Amortization of fair value debt adjustment		**(341)**		(682)
Amortization of deferred financing costs		**366**		732
Changes in non-cash working capital		**(2,402)**		(5,018)
		11,698		13,911
Financing Activities				
Repayment of long-term debt		**(2,646)**		(4,544)
Costs incurred regarding the distribution reinvestment plan		**–**		(19)
Unit distributions		**(11,433)**		(22,986)
Changes in non-cash working capital related to financing activities		**(1,408)**		(1,824)
Convertible debentures interest		**(1,828)**		(3,656)
		(17,315)		(33,029)
Investing Activities				
Capital expenditures on hotel properties		**(2,239)**		(4,259)
Changes in restricted cash		**(14)**		114
		(2,253)		(4,145)
Decrease in cash during the period		**(7,870)**		(23,263)
Cash, beginning of period		**11,337**		26,730
Cash, end of period	$	**3,467**	$	3,467
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	**6,048**	$	11,978
Cash paid for income taxes (including capital tax)	$	**1,024**	$	2,049

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

There are no comparative figures as the REIT began operations on July 26, 2002.

As at June 30, 2003 (unaudited) (all dollar amounts are in thousands, except per unit amounts)

1. Basis of Presentation

InnVest Real Estate Investment Trust (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 11,602 guest rooms operated under international brands. These consolidated financial statements represent operations for the three and six months ended June 30, 2003. The REIT began operations on July 26, 2002 therefore there are no comparatives.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These financial statements are consistent with those used in the annual consolidated financial statements. They do not include all the information and disclosure required by Canadian 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.

2. Hotel Properties

	Cost	Accumulated Depreciation	June 30, 2003 Net Book Value	December 31, 2002 Net Book Value
Land	$ **58,801**	$ **–**	$ **58,801**	$ 58,801
Buildings	**754,562**	**17,626**	**736,936**	744,798
Furniture and equipment	**53,675**	**9,440**	**44,235**	46,715
	$ **867,038**	$ **27,066**	$ **839,972**	$ 850,314

3. Long-term Debt

	June 30, 2003	December 31, 2002
Mortgages payable	$ **314,236**	$ 319,462
Less: current portion	**7,351**	8,976
Total long-term debt	$ **306,885**	$ 310,486

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At June 30, 2003, long-term debt has a weighted average interest rate of 7.6% (December 31, 2002 - 7.6%). The long-term debt is repayable in blended monthly payments of principal and interest totalling $2,542 (December 31, 2002 - $2,610), and matures at various dates from July 1, 2003 to October 1, 2018.

Scheduled repayment of long-term debt is as follows:

2003 (remainder of the year)	$ 3,750
2004	6,277
2005	4,983
2006	141,213
2007	8,061
2008 and thereafter	149,952
	$ 314,236

The current portion of long-term debt on the balance sheet is based on the twelve months ended June 30, 2004, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of the REIT's long-term debt at June 30, 2003 is approximately $318,538 (December 31, 2002 - $319,119). 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 $10,209 of mortgages payable, which are subject to floating interest rates. Interest expense will increase by $102 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 $94,300 is available to repay mortgage debts held by its various other lenders, as they mature.

4. Guarantees

Effective January 1, 2003, the REIT is required to disclose its obligations undertaken in issuing certain guarantees on the date the guarantee is issued or modified. Where the REIT expects to make a payment in respect of the guarantee, a liability will be recognized to the extent that one has not yet been recognized.

The REIT has not provided to third parties any significant guarantees other than the following:

Trustee and Officer Indemnification Agreements

The REIT has entered into indemnification agreements with its trustees and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the trustees and officers as a result of any lawsuit or any other judicial, administrative proceeding in which the trustees and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the REIT from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The REIT has purchased trustees' and officers' liability insurance. No amount has been recorded in the financial statements with respect to these indemnification agreements.

5. Unitholders' Equity

The REIT was established pursuant to a declaration of trust dated January 1, 2002 when one unit was issued for ten dollars. 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
Balance at June 30, 2003	41,096,747	$	387,927

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.

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.

The following table summarizes the status of the executive compensation plan at June 30, 2003:

Date of Grant	Executive Units Declared	Units Accumulated from Distributions	Total Units
July 17, 2002	49,500	5,404	54,904

Convertible Debentures

The convertible 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 convertible debentures is convertible at the option of the holder into 93.0233 units (representing a conversion price of $10.75 per unit). The 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 the convertible debentures due at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of 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.

In accordance with Canadian 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.

The convertible debenture balance has 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.

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.

6. Per Unit Information

Net income per unit calculations are based on the following:

	Three months ended June 30, 2003	Weighted Average Units	Six months ended June 30, 2003	Weighted Average Units
Net income	$ 6,914	41,087,537	$ 4,560	41,083,668
Convertible debenture interest and accretion	(1,984)	–	(3,968)	–
Net income - basic	4,930	41,087,537	592	41,083,668
Dilutive effect of executive compensation plan	–	20,842	–	20,842
Net income - diluted	$ 4,930	41,108,379	$ 592	41,104,510

Distributable income per unit calculations are based on the following (Note 7):

	Three months ended June 30, 2003	Weighted Average Units	Six months ended June 30, 2003	Weighted Average Units
Distributable income - basic	$ 10,019	41,087,537	$ 11,128	41,083,668
Dilutive effect of executive compensation plan	–	20,842	–	20,842
Distributable income - diluted	$ 10,019	41,108,379	$ 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.

7. 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, future income benefits and 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 any other adjustments determined by the trustees of the REIT in their discretion.

	Three months ended June 30, 2003	Six months ended June 30, 2003
Net income	$ 6,914	$ 4,560
Add (deduct)		
Depreciation and amortization	8,027	15,991
Amortization of fair value debt adjustment	(341)	(682)
Future income tax recovery	(542)	(1,084)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(2,253)	(4,145)
Non-cash executive and trustee compensation	42	144
Convertible debenture interest	(1,828)	(3,656)
	3,105	6,568
Distributable income	$ 10,019	$ 11,128
Distributable income per unit (Note 6) – basic	$ 0.244	$ 0.271
– diluted	$ 0.244	$ 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 organizations. 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.

8. 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 on 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 it achieves certain hurdles for Distributable Income per Unit in excess of the forecast Distributable Income per Unit contained in the prospectus. No management incentive fees were earned 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 services related to hotel renovations incurred by Westmont.

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

	Three months ended June 30, 2003	Six months ended June 30, 2003
Management fees	$ 1,896	$ 3,497
Accounting services (included in hotel operating expenses)	425	854
Administrative services (included in corporate and administrative expenses)	169	281
Project management and general contractor services (capitalized in hotel properties)	38	136
	$ 2,528	$ 4,768

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT, were $161. Included in accounts payable and accrued liabilities are amounts payable to Westmont at June 30, 2003 totalling $1,082 (December 31, 2002 - $722).

9. Segmented Financial Information

The REIT operates hotel properties throughout Canada. Information related to these properties by geographic segment is presented below. The accounting policies used in the preparation of the segmented information are the same as those described for the REIT in the annual consolidated financial statements. 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, 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, 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, 2003	$ 220	$ 1,583	$ 322	$ 114	$ 2,239
Six months ended June 30, 2003	$ 487	$ 2,896	$ 754	$ 122	$ 4,259
Hotel properties					
June 30, 2003	$ 70,568	$ 477,168	$ 195,619	$ 96,617	$ 839,972
December 31, 2002	$ 67,686	$ 483,537	$ 195,492	$ 103,599	$ 850,314

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