

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of the issuer at 5090 Explorer Drive, 7<sup>th</sup> Floor, Mississauga, Ontario, Canada L4W 4T9 (905) 624-7846, and are also available electronically at [www.sedar.com](http://www.sedar.com). For the purposes of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained without charge from the secretary of the issuer at the above-mentioned address and telephone number and is also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

May 9, 2006



# INNVEST REAL ESTATE INVESTMENT TRUST

**\$75,000,000**

## **6.00% Convertible Unsecured Subordinated Debentures**

This short form prospectus qualifies the distribution of \$75,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures, Series B (the “Debentures”) of InnVest Real Estate Investment Trust (the “REIT”) at a price of \$1,000 per Debenture (the “Offering”). The Debentures bear interest at an annual rate of 6.00% payable semi-annually in arrears on May 31 and November 30 in each year, commencing November 30, 2006 and will mature on May 31, 2013 (the “Maturity Date”). See “Description of the Debentures”.

The REIT’s head office and registered office is located at 5090 Explorer Drive, 7<sup>th</sup> Floor, Mississauga, Ontario, Canada L4W 4T9.

Each Debenture is convertible into freely-tradeable units (“Units”) of the REIT at the option of the holder at any time prior to 4:00 p.m. (Toronto time) on the earlier of May 31, 2013 and the last business day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$14.90 per Unit (the “Conversion Price”), being a conversion rate of approximately 67.114 Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Except in limited circumstances, holders converting their Debentures will receive accrued and unpaid interest on such Debentures for the period from the last interest payment date (or the date of issue if no interest has yet been paid by the REIT) to and including the last record date declared by the REIT for determining holders of Units (“Unitholders”) entitled to receive distributions on the Units. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events are set out under “Description of the Debentures — Conversion Rights”. **A holder of Debentures will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such Debentures. See “Certain Canadian Federal Income Tax Considerations”.**

### **PRICE: \$1,000 PER DEBENTURE**

	<b>Price to the Public<sup>(1)</sup></b>	<b>Underwriters’ Fee</b>	<b>Net Proceeds to the REIT<sup>(2)</sup></b>
Per Debenture . . . . .	\$1,000	\$37.50	\$962.50
Total Offering . . . . .	\$75,000,000	\$2,812,500	\$72,187,500

(1) The offering price for the Debentures was established through negotiation between the REIT and the Underwriters.

(2) Before deducting expenses of the Offering estimated at \$250,000 which, together with the Underwriters’ fee, will be paid from the proceeds of the Offering.

*(continued on next page)*

(continued from cover)

The Debentures are not redeemable prior to May 31, 2009. From May 31, 2009 to May 31, 2011, the Debentures may be redeemed by the REIT, in whole or in part, on not more than 60 days' and on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given exceeds 125% of the Conversion Price. On or after June 1, 2011, the Debentures may be redeemed by the REIT, in whole or in part, at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. See "Description of Debentures — Redemption".

The REIT may, at its option, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures that are to be redeemed or that have matured by delivering that number of freely-tradeable Units obtained by dividing the principal amount of the Debentures that are to be redeemed or that have matured, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as applicable. See "Description of the Debentures — Method of Payment".

**Investing in the Debentures involves risks. See "Risk Factors".**

**A return on an investment in Units, in the event a holder converts Debentures into Units in accordance with their terms, is not comparable to the return on investment in a fixed income security. The recovery of a holder's investment in Units is at risk, and the anticipated return on a holder's investment in Units is based on many performance assumptions. Although the REIT intends to make distributions of its available cash to holders of Units, these cash distributions may be reduced or suspended. The actual amount distributed will depend on numerous factors disclosed in the continuous disclosure documents of the REIT. In addition, the market value of the Units may decline if the REIT is unable to meet its cash distribution targets in the future, and that decline may be significant.**

**It is important for you to consider the particular risk factors that may affect the hotel and real estate industry, and therefore the stability of the distributions that holders of Units receive in the event a holder of Debentures converts Debentures into Units. See, for example, "Real Estate Investment Risks" and "Hotel Industry Risks" under the section "Risk Factors" in the REIT's renewal annual information form dated March 21, 2006. Those sections also describe the REIT's assessment of certain of those risk factors, as well as the potential consequences to a holder of Units if a risk should occur.**

The after-tax return to a holder of Units who is subject to Canadian income tax from an investment in Units will depend, in part, on the composition for income tax purposes of distributions paid by the REIT on its Units, portions of which may be fully or partially taxable or may constitute tax deferred distributions which are not subject to tax at the time of receipt but reduce the holder's cost base in the Unit for tax purposes. The composition may change over time, thus affecting the holder's after-tax return. Distributions of the taxable income of the REIT are generally taxed as ordinary income (or as dividends or as capital gains) in the hands of a holder of Units. Distributions in excess of the taxable income of the REIT are generally tax-deferred (and reduce a holder's cost base in the Unit for tax purposes).

**There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus.** The TSX has conditionally approved the listing of the Debentures and the Units issuable upon conversion of the Debentures. The listing is subject to the REIT fulfilling all of the listing requirements of the TSX on or before July 27, 2006. The Units are listed on the TSX under the symbol "INN.UN". On April 25, 2006 the day before the announcement of the Offering, the closing price of the Units on the TSX was \$13.06 per Unit.

RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc. and TD Securities Inc. (collectively, the "Underwriters"), as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by the REIT and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the REIT by Davies Ward Phillips & Vineberg LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP. The Underwriters may engage in market stabilization activities as described under "Plan of Distribution".

**RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank that is a lender to the REIT under a revolving credit facility. A portion of the proceeds of the Offering may be used to temporarily reduce indebtedness under the revolving credit facility. Consequently, the REIT may be considered a "connected issuer" of RBC Dominion Securities Inc. under applicable securities laws in certain Canadian provinces. See "Use of Proceeds" and "Plan of Distribution".**

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is expected to occur on or about May 16, 2006 or such later date as the REIT and the Underwriters may agree, but in any event not later than May 23, 2006. Registration and transfers of Debentures and Units issuable upon conversion, redemption or maturity of the Debentures will be effected only through the book-based system administered by The Canadian Depository for Securities Limited ("CDS"). Beneficial owners of Debentures or Units will not, except in limited circumstances, be entitled to receive a physical certificate evidencing their ownership of Debentures or Units. See "Description of the Debentures — Book-Based System".

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference into this short form prospectus, constitute forward-looking statements. These statements relate to future events or the REIT's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. While the REIT believes the expectations reflected in those forward-looking statements are reasonable, such forward-looking statements included in, or incorporated by reference into, this short form prospectus should not be unduly relied upon. These statements speak only as of the date of this short form prospectus or as of the date specified in the documents incorporated by reference into this short form prospectus, as the case may be.

In particular, this short form prospectus, and the documents incorporated by reference, contain forward-looking statements pertaining to distributable cash and distributions per Unit among other things. The actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, the risk factors set out in this short form prospectus or incorporated by reference herein. The REIT does not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

### ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, provided that the REIT qualifies as a mutual fund trust under the *Income Tax Act* (Canada) (the "Tax Act") and the Units are listed on a prescribed stock exchange in Canada on the date of closing of the Offering, the Debentures, as at that date, will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (collectively, the "Exempt Plans"). Units acquired under the terms of the Debentures, if issued on the date of issue of the Debentures and provided the REIT qualifies as a mutual fund trust, would be qualified investments under the Tax Act for Exempt Plans. See "Certain Canadian Federal Income Tax Considerations".

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this short form prospectus from documents filed with securities regulatory authorities in Canada.** For the purpose of the Province of Québec, this simplified prospectus contains information to be completed by consulting the permanent information record. Copies of the documents incorporated herein by reference and of the permanent information record may be obtained upon request without charge by contacting the Secretary of the REIT at 5090 Explorer Drive, 7<sup>th</sup> Floor, Mississauga, Ontario L4W 4T9 (telephone: (905) 624-7846; fax: (905) 624-7805), or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com).

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

- (a) audited consolidated comparative financial statements as at and for the years ended December 31, 2004 and 2005, together with the notes thereto and the auditors' report thereon, and management's discussion and analysis of financial condition and results of operations thereon;
- (b) renewal annual information form dated March 21, 2006 (the "AIF");
- (c) management information and proxy circular (the "Proxy Circular") dated March 24, 2006 distributed in connection with the annual and special meeting of Unitholders to be held on May 17, 2006; and
- (d) material change report dated May 4, 2006 relating to the Offering and the redemption of all of the outstanding 9.75% convertible unsecured subordinated debentures of the REIT.

Any document of the type referred to in the preceding paragraph or deemed to be incorporated by reference pursuant to applicable securities laws, including material change reports (excluding confidential material change reports) and any interim consolidated financial statements, together with management's discussion and analysis of financial condition and results of operations thereon, filed by the REIT with a securities regulatory authority after the date of this short form prospectus and prior to the termination of this Offering shall be deemed to be incorporated by reference in this short form prospectus.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein, or in any other subsequently filed document that also is incorporated or is deemed to be incorporated by reference herein, modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.**

## INNVEST REAL ESTATE INVESTMENT TRUST

The REIT is an unincorporated open-ended real estate investment trust established under the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated July 18, 2002 (the "Declaration of Trust"). The head office of the REIT is located at 5090 Explorer Drive, 7<sup>th</sup> Floor, Mississauga, Ontario L4W 4T9.

The REIT is principally focused on the acquisition and ownership of limited service hotels which generally do not have, or have only limited, food and beverage or other ancillary services and substantially all the revenues of which are generated from guest room rentals. However, the REIT's broader strategy also encompasses the acquisition and ownership of certain mid-market hotels to complement its limited service hotel portfolio. These mid-market hotels provide food, beverage and other ancillary services to patrons.

The REIT currently holds, directly and indirectly, 133 Canadian hotel properties, Canada's largest hotel portfolio as measured both by number of hotels and by number of guest rooms (the "Portfolio"). Each of the REIT's hotels is operated under international brands, with Choice Canada brands, including Comfort Inn®, Quality Hotel®, Quality Suites®, and Quality Inn® making up 60% of the Portfolio's guest rooms. Travelodge® and Holiday Inn® are the other significant brands, representing 13% and 18% of the Portfolio's guest rooms, respectively. Set out below is a summary description of the assets under each brand:

<u>BRAND</u>	<u>No. of Hotels</u>	<u>No. of Guest Rooms</u>	<u>% of Guest Rooms</u>
Comfort Inn . . . . .	85	6,849	47.0%
Holiday Inn . . . . .	15	2,608	17.9%
Travelodge . . . . .	11	1,839	12.6%
Quality Suites/Inn . . . . .	8	1,096	7.5%
Quality . . . . .	5	796	5.5%
Radisson . . . . .	4	707	4.9%
Delta . . . . .	1	245	1.7%
Hilton <sup>(1)</sup> . . . . .	2	209	1.4%
Best Western . . . . .	1	130	0.9%
Independent . . . . .	1	83	0.6%
	<u>133</u>	<u>14,562</u>	<u>100.0%</u>

(1) Acquired on April 28, 2006. See "Recent Development — Acquisitions".

Geographically, the REIT's hotels are concentrated in Ontario and Québec (together representing 77% of the guest rooms in the Portfolio), where the majority of Canada's population and business activity is located, with additional properties in population centres in the Atlantic and Western provinces.

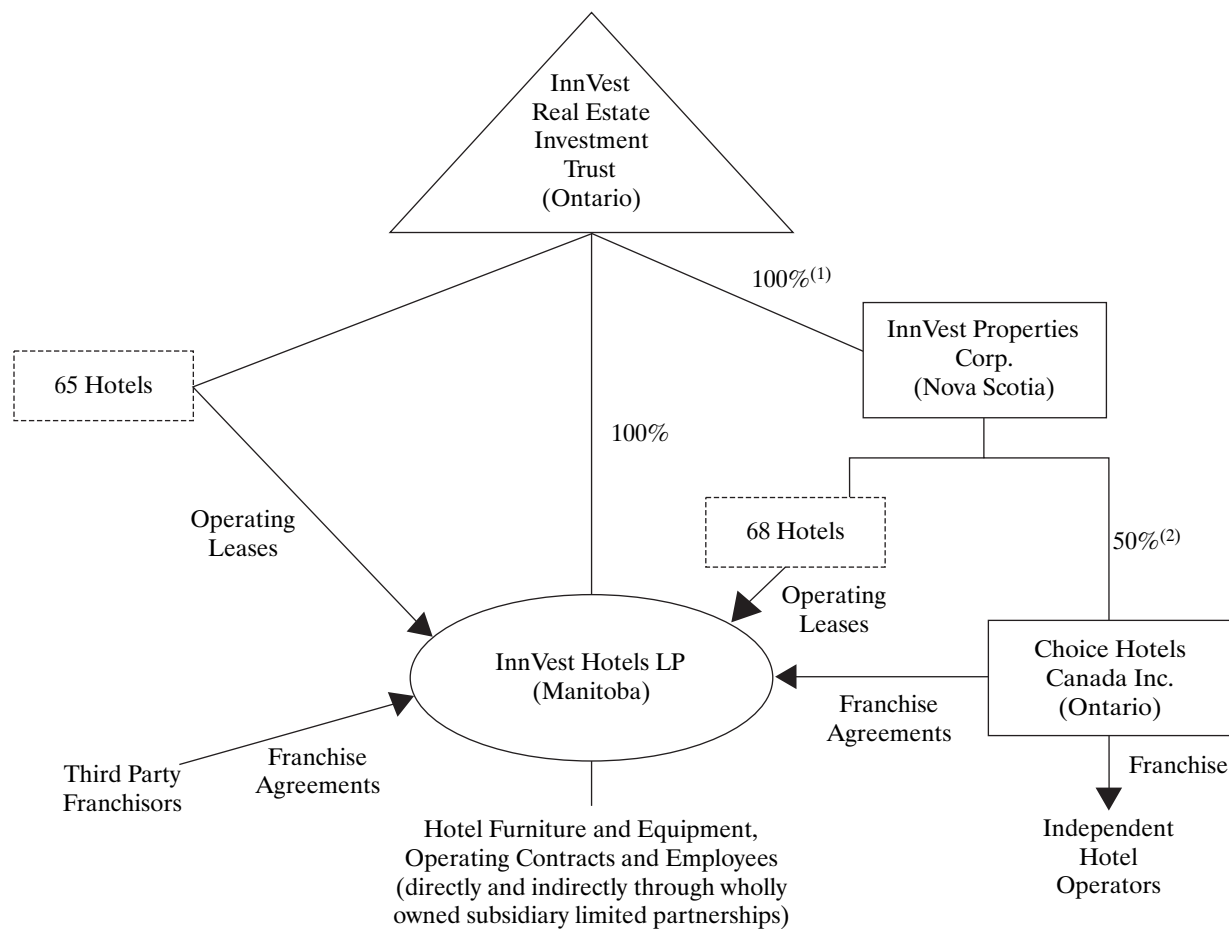
The REIT also owns a 50% interest in Choice Hotels Canada Inc. ("Choice Canada"). The remaining 50% of Choice Canada is owned by Choice Hotels International Inc. ("Choice International"), one of the largest hotel franchise companies in the world with more than 5,000 hotels and resorts (open or under development) in 46 countries under the Comfort Inn®, Comfort Suites®, Quality Inn®, Quality Hotel®, Quality Suites®, Clarion®, Sleep Inn®, Rodeway Inn®, Econo Lodge® and MainStay Suites® brand names.

Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. With approximately 282 locations open or under development and more than 23,750 guest rooms, Choice Canada is the largest franchisor of hotels in Canada as measured by hotels under franchise. Upon formation of the joint venture between a predecessor of InnVest Properties Corp. ("InnVest Properties"), a subsidiary of the REIT, and Choice International in June 1993, InnVest Properties retained all rights to the royalty fees collected from its then existing managed portfolio of Choice-branded properties, subject only to InnVest Properties contributing a preferred annual royalty amount to Choice Canada. The royalty arrangement will continue until June 21, 2092, provided that the affiliation arrangement between Choice International, Choice Canada and InnVest Properties remains in place. Any new properties owned or managed by InnVest Properties or the REIT which are added or re-branded under the Choice franchise system will be subject to the then current Choice Canada franchise arrangements.

## STRUCTURE OF THE REIT

The REIT currently owns 65 hotel properties, either directly or through a subsidiary limited partnership, and InnVest Properties currently owns 68 hotel properties. InnVest Hotels LP (the “Operator”), a subsidiary limited partnership of the REIT, together with subsidiaries, owns and operates the hotel businesses and leases the hotel properties (other than certain hotel businesses and hotel properties that are indirectly owned by InnVest Properties) from the REIT, InnVest Properties and their subsidiaries. Ninety-eight of the 133 hotels in the Portfolio are operated under franchise agreements with Choice Canada, and the remaining 35 hotels are operated under franchise agreements with other franchisors.

The following chart illustrates the current primary structural and contractual relationships between the REIT and its principal subsidiaries and certain third parties.



(1) Held through wholly-owned direct and indirect subsidiaries of the REIT.

(2) Held through a wholly-owned subsidiary of InnVest Properties.

## RECENT DEVELOPMENTS

### Proposed Reorganization

As discussed in the Proxy Circular (incorporated by reference in this short form prospectus (see “Documents Incorporated by Reference”)), the REIT is seeking approval of Unitholders to effect a proposed reorganization (the “Reorganization”) which will result in the consolidation of the ownership and operation of the hotels comprising the REIT’s portfolio in the Operator. The rights of Unitholders in respect of the REIT and their relative interests in and to the revenues derived from the REIT’s business will not be materially affected by the Reorganization, although the implementation of the Reorganization will require amendments to the Declaration of Trust. The purpose of the Reorganization is to reorganize the REIT and its subsidiaries in order to achieve a more efficient and integrated operational structure that will position the REIT to pursue additional hotel acquisitions in accordance with its long-term business plan. The existing ownership structure of the REIT is complex with a significant number of subsidiaries. It is anticipated that the REIT will achieve operating and other cost reductions by virtue of the Reorganization. The Reorganization is also intended to result in a more tax-efficient structure. In addition, management believes that simplifying the REIT’s ownership structure and consolidating the ownership and operation of the hotels under the Operator will improve the REIT’s ability to borrow from third-party mortgage lenders at favourable rates. A chart illustrating the post-Reorganization primary structural and contractual relationship between the REIT, its principal subsidiaries and certain third parties can be found on page 6 of the Proxy Circular.

The REIT has applied to the Canada Revenue Agency for an advance income tax ruling in respect of the Reorganization. Subject to obtaining this ruling, and any consents or regulatory approvals determined to be necessary or advisable in connection with the Reorganization, and upon obtaining the requisite approval of Unitholders at the annual and special meeting of Unitholders to be held on May 17, 2006, the REIT intends to effect the Reorganization during calendar 2006. Unless otherwise indicated, the disclosure in this prospectus does not give effect to the Reorganization.

### Acquisitions

On December 13, 2005, the REIT entered into a purchase and sale agreement (the “Delta Purchase Agreement”) with The Standard Life Assurance Company of Canada (the “Delta Vendor”), as amended by an amending agreement dated April 25, 2006, pursuant to which the REIT agreed to purchase from the Delta Vendor two Delta-branded hotels, the Place des Congr s located in Sherbrooke, Qu bec (“Delta Sherbrooke”) and Cit  Champlain located in Trois-Rivi res, Qu bec (“Delta Trois-Rivi res” and, together with the Delta Sherbrooke, the “Delta Hotels”) for a purchase price of \$47,000,000 in cash (the “Delta Acquisition”), subject to customary adjustments for a transaction of this nature. The Delta Acquisition is expected to close on May 25, 2006, or such other date as the REIT and the Delta Vendor may mutually agree. The obligation of each of the parties to the Delta Purchase Agreement is subject to certain closing conditions being satisfied, which are usual for a transaction of this nature, including satisfactory due diligence investigations being completed by the REIT.

The Delta Hotels consist of an aggregate of 337 hotel rooms and both have conference centre facilities and retail space. In addition, the Delta Sherbrooke property includes a 7-storey Class A office building, while the Delta Trois-Rivi res property includes a nine-storey, 102 unit independent living retirement residence. Both hotels provide amenities such as parking, an indoor swimming pool, health club, spa and restaurant and bar.

On April 28, 2006, the Operator completed the acquisition (the “Hilton Acquisition”) of two Hilton hotels located in Burlington, Ontario, the Hilton Garden Inn (“Hilton Garden”) and the Homewood Suites Hotel (“Hilton Homewood Suites” and, together with the Hilton Garden, the “Hilton Hotels”), for an aggregate purchase price of \$27,500,000 plus closing and transaction costs. The purchase price for the Hilton Acquisition was satisfied by the Operator giving to the vendor of the Hilton Hotels a vendor take-back mortgage (the “Vendor Take-Back Mortgage”) in the amount of \$2,000,000 and by the Operator assuming existing first and second mortgages on each of the Hilton Hotels in the total aggregate amount of \$14,327,045, with the balance of the purchase price being paid in cash obtained from the REIT’s existing revolving credit facility.

Both the Hilton Homewood Suites and the Hilton Garden are newly built hotels with 89 suites for extended stay customers and 120 hotel rooms, respectively. The Hilton Homewood Suites also has a 40-seat restaurant and lounge.

On March 3, 2006, the REIT completed the acquisition (the “Leamington Acquisition” and, together with the Delta Acquisition and the Hilton Acquisition, the “Acquisitions”) of a 62-room Comfort Inn located in Leamington, Ontario for a purchase price of \$3,160,000 plus closing and transaction costs.

The Acquisitions are intended to provide the REIT with further brand and geographical diversification.

### **REDEMPTION OF 9.75% CONVERTIBLE DEBENTURES**

With a desire to maintain its current leverage level following completion of the Offering, the REIT has initiated the process of redeeming its outstanding 9.75% convertible unsecured subordinated debentures (the “9.75% Debentures”) on June 1, 2006 (the “Redemption Date”), upon payment of a redemption amount of \$1,040.34 for each \$1,000 principal amount of Debentures, being equal to the aggregate of (i) \$1,000 for each \$1,000 principal amount of Debentures (the “Redemption Price”) and (ii) all accrued and unpaid interest thereon to but excluding the Redemption Date. As at May 8, 2006, \$57,402,000 aggregate principal amount of the 9.75% Debentures are outstanding.

In accordance with the terms of the trust indenture (the “Indenture”) dated July 26, 2002, as amended, between the REIT and Computershare Trust Company of Canada, as trustee (the “Debenture Trustee”), the REIT has elected to pay to holders of the 9.75% Debentures the Redemption Price by issuing and delivering to such holders that number of Units obtained by dividing the Redemption Price by 95% of the current market price of the Units (as defined in the Indenture to mean the weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event) on the Redemption Date. No fractional Units shall be delivered upon the exercise by the REIT of the abovementioned redemption right but, in lieu thereof, the REIT shall pay the cash equivalent thereof determined on the basis of the current market price of Units on the Redemption Date. The payment of accrued and unpaid interest on the 9.75% Debentures will be satisfied in cash (less any tax required to be deducted, if any).

### **USE OF PROCEEDS**

The net proceeds to the REIT from the Offering, after deducting the Underwriters’ fee and the estimated expenses of the Offering, will be approximately \$71,937,500. The REIT intends to use the net proceeds of the Offering to finance the Delta Acquisition (approximately \$47,000,000) and to pay related expenses, with any amounts remaining being used to repay all indebtedness under the REIT’s revolving credit facility incurred in connection with the Hilton Acquisition (approximately \$11,172,955), the Leamington Acquisition (approximately \$3,200,000) and otherwise, to fund future acquisitions and for general purposes.

In the event the Delta Acquisition is not completed, the unused portion of the net proceeds of the Offering will be used to repay indebtedness under the REIT’s revolving credit facility, to fund future acquisitions and for general purposes.

## PRO FORMA CAPITALIZATION OF THE REIT

The following table sets forth the *pro forma* consolidated capitalization of the REIT as at December 31, 2005 after giving effect to the Offering, the Acquisitions and the redemption of the 9.75% Debentures. This table should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in this short form prospectus.

	As at December 31, 2005 ( <i>pro forma</i> )
<b>Indebtedness:</b>	
Long-term debt <sup>(1)</sup> .....	\$ 465,853,045
Convertible debentures .....	\$ 130,144,000
Revolving credit facility .....	\$ nil
<b>Unitholders' Equity:</b>	
Units (Authorized — unlimited) <sup>(2)(3)</sup> .....	\$ 428,832,000 (54,625,814 Units)
<b>Total Capitalization</b> .....	<b>\$1,024,829,045</b>
<b>Total Indebtedness/Gross Book Value</b> <sup>(4)</sup> .....	<b>50.6%</b>

(1) Includes \$2,000,000 Vendor Take-Back Mortgage due April 28, 2007, granted in connection with the Hilton Acquisition. See “Recent Developments — Acquisitions”.

(2) Does not include Units issuable pursuant to the outstanding 6.25% convertible unsecured subordinated debentures, Series A (the “6.25% Debentures”) of the REIT or the Debentures offered hereunder.

(3) Assumes all of the 9.75% Debentures are converted by the holders thereof at the conversion price of \$10.75 per Unit prior to the Redemption Date, resulting in the issuance of 6,664,651 Units of the REIT.

(4) Calculated in accordance with the Declaration of Trust.

## EARNINGS COVERAGE

The following *pro forma* consolidated earnings coverage ratios have been calculated for the year ending December 31, 2005 after giving effect to the Offering, the Acquisitions and the redemption of the 9.75% Debentures.

	Year Ended December 31, 2005 ( <i>pro forma</i> )
<i>Pro forma</i> interest requirements <sup>(1)</sup> .....	\$37,189,066
Earnings before interest expense and income tax .....	\$55,723,000
Earnings coverage ratios <sup>(1)(2)</sup> .....	1.5 times

(1) For the purpose of this calculation, *pro forma* interest requirements assume that all of the REIT’s outstanding convertible debentures (including the Debentures) will be characterized as 100% debt and interest payments will be classified as interest expense in the financial statements.

(2) Earnings coverage is equal to net income before interest and income taxes divided by interest expense on all debt.

## DESCRIPTION OF THE DEBENTURES

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

### General

The Debentures will be issued as a new series under the Indenture and a supplement thereto to be dated as of the closing of the Offering.

The Debentures to be issued will be in the aggregate principal amount of \$75,000,000. The REIT may, from time to time, without the consent of the holders of the Debentures, issue additional debentures of the same series or of a different series under the Indenture, in addition to the Debentures offered hereby.

The Debentures will be dated as of the closing of the Offering and will mature on May 31, 2013. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof and will bear interest from and including the date of issue at 6.00% per annum, which will be payable semi-annually in arrears on May 31 and November 30 in each year, commencing on November 30, 2006. The first interest payment will include interest accrued from the date of the closing of, but excluding, November 30, 2006.

The principal amount of the Debentures is payable in lawful money of Canada or, at the option of the REIT and subject to applicable regulatory approval, by delivery of Units as further described under “Method of Payment — Payment of Principal on Redemption or at Maturity”. The interest on the Debentures is payable in lawful money of Canada including, at the option of the REIT and subject to applicable regulatory approval, in accordance with the Interest Payment Election as described under “— Method of Payment — Interest Payment Election”.

The Debentures are direct obligations of the REIT and are not to be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of the REIT as described under “— Subordination”. The Indenture does not restrict the REIT from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

### **Subordination**

The Indenture provides that the Debentures are subordinated in right of payment of principal and interest to all present and future Senior Indebtedness (as defined herein) of the REIT. No payment of principal (including redemption payments) or interest on the Debentures may be made (1) if any Senior Indebtedness is not paid when due and any applicable grace period with respect to such payment default on Senior Indebtedness has ended and such default has not been cured or waived or ceased to exist, or (2) if the maturity of any Senior Indebtedness has been accelerated because of a default and either such acceleration has not been rescinded or such Senior Indebtedness has not been repaid. Upon any distribution of assets of the REIT to creditors upon any dissolution, winding-up, total liquidation or reorganization of the REIT, whether in bankruptcy, insolvency or receivership proceedings, upon an “assignment for the benefit of creditors”, or otherwise, all principal, premium, if any, and interest due on all Senior Indebtedness of the REIT must be paid in full before the holders of the Debentures are entitled to receive or retain any payment.

Neither the Indenture nor the Debentures will limit the ability of the REIT to incur additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

The term “Senior Indebtedness” means the principal of, and the interest and premium (or any other amounts payable thereunder), if any, on:

- (i) all indebtedness, liabilities and obligations of the REIT (other than the 9.75% Debentures, the 6.25% Debentures and the Debentures), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition by the REIT of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) or in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) by others including, without limitation, any subsidiary of the REIT for payment of which the REIT is responsible or liable, whether absolutely or contingently; and
- (ii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

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

The Debentures are direct unsecured obligations of the REIT. Each Debenture will rank *pari passu* with each other Debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the REIT (including the 9.75% Debentures and the 6.25% Debentures) except for sinking fund provisions (if any) applicable to different series of Debentures or other similar types of obligations of the REIT.

### **Conversion Rights**

Each Debenture is convertible into freely-tradeable Units of the REIT, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of May 31, 2013 and the last business day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$14.90 per Unit (the "Conversion Price"), being a conversion rate of approximately 67.114 Units per \$1,000 principal amount of Debentures, subject to adjustment upon the occurrence of certain events in accordance with the Indenture. If all conversion rights attaching to the Debentures are exercised, the REIT will be required to issue 5,033,557 additional Units, subject to anti-dilution adjustments. No adjustment will be made for distributions on Units issuable upon conversion. Holders converting their Debentures will be entitled to receive, in addition to the applicable number of Units to be received on conversion, accrued and unpaid interest, if any, for the period from the last interest payment date (or the date of issue if no interest has yet been paid by the REIT) to and including the last record date declared by the REIT for determining the Unitholders entitled to receive distributions on the Units prior to the date of conversion; provided that, in the event the REIT has suspended or has publicly announced the suspension of regular distributions to Unitholders prior to the date on which a holder converts the Debentures held by such holder, and such suspension is in effect on such conversion date, such holder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion (or the date of issue if no interest has yet been paid by the REIT) to and including the date of conversion.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Units; (b) the distribution of Units to holders of Units by way of distribution or otherwise other than an issue of securities to holders of Units who have elected to receive distributions in securities of the REIT in lieu of receiving cash distributions paid in the ordinary course; (c) the issuance of options, rights or warrants to all or substantially all holders of Units entitling them to acquire Units or other securities convertible into Units at less than 95% of the then current market price (as defined in the Indenture to mean the weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event) of the Units; and (d) the distribution to all or substantially all the holders of Units of (i) units of any class other than Units and other than units distributed to holders of Units who have elected to receive dividends or distributions in the form of such units in lieu of dividends or distributions paid in the ordinary course, (ii) rights, options or warrants (excluding rights, options or warrants entitling the holders thereof for a period of not more than 45 days to subscribe for or purchase Units or securities convertible into Units), (iii) evidences of its indebtedness, or (iv) assets (excluding dividends or distributions paid in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be, of such event. The REIT will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, amalgamation, reorganization or merger of the REIT with or into any other entity, or in the case of any sale or conveyance of the property and assets of the REIT as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the REIT, the terms of the conversion privilege shall be adjusted so that each holder of a

Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, reorganization, merger, sale, conveyance, liquidation, dissolution or winding-up, be entitled to receive and shall accept the number of Units or other securities or other property that, on the exercise of the conversion right, such holder would be entitled to receive if, on the effective date thereof, it had been the holder of the number of Units into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, amalgamation, reorganization, combination, merger, sale, conveyance, liquidation, dissolution or winding-up.

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

### **Redemption**

The Debentures will not be redeemable prior to May 31, 2009, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On or after May 31, 2009, to May 31, 2011, the Debentures will be redeemable at the option of the REIT, in whole or in part from time to time, on not more than 60 days' nor less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given exceeds 125% of the Conversion Price. On or after June 1, 2011, the Debentures will be redeemable at the option of the REIT, in whole or in part and from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. Any Debentures redeemed by the REIT will be cancelled and will not be reissued.

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

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

Upon the occurrence of a change of control involving the acquisition, by any person or persons acting jointly or in concert, of voting control or direction over an aggregate of 66<sup>2</sup>/<sub>3</sub>% or more of the outstanding Units of the REIT, or securities convertible into or carrying the right to acquire Units (a "Change of Control"), each holder of Debentures may require the REIT to purchase, on the date which is 30 days following the giving of notice of a Change of Control as set out below (the "Put Date"), all or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "Put Price") plus accrued and unpaid interest up to but excluding the Put Date.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date the REIT provides notice of a Change of Control to the Debenture Trustee have been tendered for purchase on the Put Date, the REIT has the right to redeem all the remaining Debentures on such date at the Put Price. Notice of such redemption must be given to the Debenture Trustee by the REIT prior to the Put Date and, as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

### **Method of Payment**

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

On redemption or at maturity, the REIT will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. The REIT may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature, by issuing and delivering freely-tradeable Units to the holders of the Debentures. The number of Units to be issued in respect of each Debenture will be determined by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending

on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be. No fractional Units will be issued on redemption but in lieu thereof, the REIT shall satisfy fractional interests by a cash payment equal to the market price of the fractional interest.

### ***Interest Payment Election***

Subject to receiving any required regulatory approvals and provided it is not in default under the Indenture, the REIT may elect, from time to time, to satisfy its obligation to pay interest on the Debentures (the “Interest Obligation”) on the date it is payable under the Indenture (an “Interest Payment Date”), by delivering a sufficient number of Units to the Debenture Trustee required to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the “Interest Payment Election”). The Indenture provides that, upon such election, the Debenture Trustee shall: (a) accept delivery from the REIT of the Units; (b) accept bids with respect to, and consummate sales of such Units, each as the REIT shall direct in its absolute discretion; (c) invest the proceeds of such sales in Government Obligations (as defined in the Indenture) that mature prior to the applicable Interest Payment Date, and use the proceeds received from such government securities, together with any proceeds from the sale of Units not invested as aforesaid, to satisfy the Interest Obligation; and (d) perform any other action necessarily incidental thereto.

The Indenture sets forth the procedures to be followed by the REIT and the Debenture Trustee in order to effect the Interest Payment Election. If an Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Units (plus any amount received by the Debenture Trustee from the REIT attributable to fractional Units) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the REIT in respect of the Interest Obligation.

Neither the REIT’s making of the Interest Payment Election nor the consummation of sales of Units will (a) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the Interest Obligation payable on such date or (b) entitle such holders to receive any Units in satisfaction of the Interest Obligation.

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

The Indenture provides that an event of default (“Event of Default”) in respect of the Debentures will result upon the occurrence of certain events described in the Indenture, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (a) failure for 15 days to pay the interest on the Debentures when due; (b) failure to pay principal or premium, if any, on the Debentures when due whether at maturity, upon redemption, by declaration or otherwise; (c) failure for 60 days after written notice to the REIT by the Debenture Trustee to comply with any of its agreements in the Debentures or the Indenture or any indenture supplemental thereto (other than those referred to in (a) and (b) above); (d) failure for 10 days to deliver Units (or cash in lieu of fractional Units) in accordance with the terms of the Indenture when such Units (or cash in lieu of fractional Units) are required to be delivered, upon conversion of a Debenture; (e) default under any agreement evidencing indebtedness for money borrowed by the REIT or a subsidiary of the REIT where such indebtedness shall be accelerated so that it shall be or become due or payable prior to the date on which the same would otherwise become due and payable and the aggregate amount thereof so accelerated exceeds \$35 million and such acceleration is not rescinded or annulled within five business days after written notice to the REIT by the Debenture Trustee; (f) certain events of bankruptcy or insolvency affecting the REIT under bankruptcy, insolvency or analogous laws; (g) a decree or court order issuing sequestration or process of execution against all or a substantial portion of the property of the REIT, appointing a receiver of all or a substantial part of the property of the REIT, or ordering the winding-up or liquidation of the affairs of the REIT and any such decree or order continues unstayed and in effect for 60 days; (h) if a resolution is passed for the winding-up or liquidation of the REIT; or (i) if, after the date of the Indenture, any proceedings with respect to the REIT are taken with respect to a compromise or arrangement, with respect to creditors of the REIT generally, under the applicable legislation of any jurisdiction.

The Indenture provides that if an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon the request of holders of not less than 25% of the aggregate principal

amount of the Debentures then outstanding, declare the principal, interest on all Debentures then outstanding and all other monies outstanding to be due and payable.

In addition to the powers exercisable by Extraordinary Resolution (as defined herein), the holders of 66⅔% in aggregate principal amount of the Debentures at the time outstanding may waive any existing default and its consequences provided that if the Event of Default has occurred by reason of the non-observance or non-performance by the REIT of any covenant applicable only to one or more series of Debentures, then the holders of at least 66⅔% of the principal amount of the outstanding Debentures of that series shall be entitled to exercise this power.

The Debenture Trustee, so long as it has not become bound to declare the principal and interest on the Debentures then outstanding to be due and payable, or to obtain or enforce payment of the same, shall have the power to waive any Event of Default if, in the Debenture Trustee's opinion, the default shall have been cured or adequate satisfaction made therefor.

When a default is waived by the Debenture Trustee or holders of Debentures, it is deemed cured and will cease to exist, but that waiver does not extend to any subsequent or other default or impair any consequent right.

### **Modification**

With certain exceptions, the Indenture and the rights of the holders of Debentures may be modified by the REIT with the consent of a majority of the holders of Debentures present and voting at a meeting at which not less than 25% of the principal amount of the Debentures then outstanding are present in person or by proxy (an "Ordinary Resolution").

The Indenture also provides that certain changes, including (a) changes relating to the modification of the terms of the Debentures, or any reduction of the rate of interest or extension of the time of payment of any principal or interest due thereon, (b) the modification, abrogation, alteration, compromise or arrangement of the rights of the holders of Debentures or the Debenture Trustee against the REIT, or (c) the waiver of any default under the Indenture, may be made if authorized by Extraordinary Resolution. The term "Extraordinary Resolution" is defined in the Indenture to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66⅔% of the aggregate principal amount of the Debentures represented and voting at a duly constituted meeting of holders of Debentures.

If the business to be transacted at any meeting by Extraordinary Resolution or otherwise, especially affects the rights of holders of debentures of one or more series in a manner or to an extent differing in any material way from that in or to which the rights of holders of debentures of any other series are affected, then the holders of at least 66⅔% of the principal amount of the outstanding debentures of that specially affected series shall be entitled to vote separately at a meeting at which not less than 25% of the principal amount of the debentures of that series then outstanding are present in person or by proxy.

All actions which may be taken by holders of Debentures by Ordinary Resolution and Extraordinary Resolution and all actions requiring the approval of at least 66⅔% of a series of Debentures may also be taken and exercised by an instrument or instruments in writing signed by the holders of not less than 66⅔% in aggregate principal amount of the Debentures or series of Debentures then outstanding, as the case may be.

The REIT and the Debenture Trustee may, without the consent or concurrence of the holders of Debentures, by supplemental indenture or otherwise, make any changes or corrections in the Indenture which it shall have been advised by counsel are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provisions or clerical omissions or mistakes or manifest errors contained therein or in any indenture supplemental thereto.

### **Book-Based System**

The Debentures will be issued in "book-entry only" form and must be purchased or transferred through a participant in the depository service of CDS (a "Participant"). On the closing of the Offering, the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. The

Debentures will be evidenced by a single book-entry only certificate. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

A purchaser acquiring a beneficial interest in the Debentures will not, except in limited circumstances, be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser's interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a Participant. Such purchaser will receive a confirmation of purchase from the Underwriters or other registered dealer from whom Debentures are purchased.

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

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act). The Debenture Trustee may require declarations as to the jurisdictions in which beneficial owners of Debentures are resident. If the REIT becomes aware that 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the REIT may make a public announcement thereof and shall notify the Debenture Trustee in writing and the Debenture Trustee shall not accept a subscription for Debentures from or issue or register a transfer of Debentures to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the REIT determines that more than 49% of the Units (on either a basic or fully-diluted basis) are held for the benefit of non-residents, the REIT may send a notice to non-resident holders of Debentures, chosen in inverse order to the order of acquisition or registration or in such manner as the REIT may consider equitable and practicable, requiring them to sell their Debentures or a portion thereof within a specified period of not more than 60 days. If the holders of Debentures receiving such notice have not sold the specified number of Debentures or provided the REIT with satisfactory evidence that they are not non-residents of Canada and do not hold their Debentures for the benefit of non-residents within such period, the REIT may sell such Debentures on behalf of such holders of Debentures to a person or persons that are not non-residents of Canada and, in the interim, all rights attaching to such Debentures (including any right to receive payments of interest) shall be immediately suspended and the rights of any such holders of Debentures in respect of such Debentures shall be limited to receiving the net proceeds of sale (net of any withholding tax).

## **DESCRIPTION OF THE UNITS**

The following is a summary of the material attributes and characteristics of the Units. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the Declaration of Trust. A more detailed summary can be found on pages 14 to 17, inclusive, of the renewal annual information form of the REIT incorporated by reference in this short form prospectus. See "Documents Incorporated by Reference".

### **General**

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distribution from the REIT, whether of net income, net realized capital gains or other amounts, and in the net assets of the REIT in the event of termination or winding-up of the REIT. All Units are of the same class with equal rights and privileges. The Units are not subject to future calls or assessments, and entitle the holder thereof to one vote for each whole Unit held at meetings of Unitholders.

Except as set out under "— Redemption Right" below, the Units have no conversion, retraction, redemption or pre-emptive rights.

As at May 8, 2006, there were 49,400,812 Units outstanding.

### **Redemption Right**

Units are redeemable at any time on demand by the holders thereof. A Unitholder not otherwise holding a fully registered Unit certificate who wishes to exercise the redemption right is required to obtain a redemption

notice form from his or her investment dealer who will be required to deliver the completed redemption notice form to the REIT through CDS. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the “market price” (calculated in accordance with the provisions of the Declaration of Trust) of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period commencing immediately subsequent to the date upon which the Units were surrendered for redemption; and (ii) the “closing market price” (calculated in accordance with the provisions of the Declaration of Trust) on the principal market on which the Units are quoted for trading on the redemption date.

The aggregate redemption price payable by the REIT in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (provided that such limitation may be waived at the discretion of the Trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units are listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the redemption date or for more than five trading days during the 10 trading day period commencing immediately after the redemption date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a transfer *in specie* of notes (the “Notes”) issued by InnVest Properties and held by the REIT. The aggregate principal amounts of such Notes would equal the redemption price payable by the REIT. The term of such Notes would be 25 years, subject to earlier repayment at the option of the REIT, and they would bear interest equal to the then current prime lending rate, as quoted by the provider of the REIT’s operating facility, plus 1%. Following the Reorganization, the Notes would be issued by the Operator. Any Notes issued before the Reorganization by InnVest Properties would become obligations of the REIT.

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

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations from holders of Units as to whether such Units are held for the benefit of non-residents. If the Trustees become aware that 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the Units (on either a basic or fully-diluted basis) are held for the benefit of non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents and do not hold their Units for the benefit of non-residents within such period, the Trustees may sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attached to such Units shall be suspended. Upon such sale the affected holders shall cease to be holders of Units and their rights shall be limited to receiving the net proceeds of sale (net of withholding tax).

## Rights of Unitholders

The rights of the Unitholders as investors in the REIT and the attributes of the Units are governed by the REIT's Declaration of Trust. Although the Declaration of Trust confers upon a Unitholder many of the same protections, rights and remedies as an investor would have as a common shareholder of a corporation governed by the *Canada Business Corporations Act* (the "CBCA"), there do exist significant differences.

The Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the REIT. In addition, the Unitholders of the REIT, as beneficiaries of a trust, are generally considered at common law not to have liability for the liabilities and the obligations of the REIT, although there was considered by some persons to be a remote risk of such liability. In order to remove this possibility of a remote risk, the *Trust Beneficiaries' Liability Act, 2004* (the "Act") was enacted in Ontario. The Act provides that Unitholders of the REIT are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the REIT or the trustees, with reference to activities or obligations of the REIT or the trustees occurring or arising after December 16, 2004. The Act has not yet been judicially considered and it is possible that reliance on the Act by a Unitholder could be successfully challenged on jurisdictional or other grounds. There are similar statutes in the provinces of Québec, Alberta and British Columbia.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of Units in a manner comparable to the exercise of voting rights by shareholders of a CBCA corporation and to elect trustees and to appoint auditors, except that, pursuant to the Declaration of Trust, Westmont Hospitality Group, Inc. has the right to appoint one Trustee, as it owns, together with its affiliates, in the aggregate at least 5% of the outstanding Units. The Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and trustees, the quorum for and procedures at such meetings and the right of Unitholders to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The REIT matters in respect of which Unitholder approval is required under the Declaration of Trust are generally less extensive than the rights conferred on the shareholders of a CBCA corporation, but effectively extend to certain fundamental actions that may be undertaken by the REIT. These Unitholder approval rights are supplemented by provisions of applicable securities laws that are applicable to the REIT (for example, approval requirements relating to related party or other transactions that are subject to Ontario Securities Commission Rule 61-501 and Regulation Q-27 of the *Autorité des marchés financiers du Québec*). The Declaration of Trust includes provisions concerning trustee independence, the composition of board committees including the audit committee and conflicts of interest, which are based on provisions of the CBCA and are supplemented by applicable securities laws.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the REIT are entitled to redeem their Units in accordance with the Declaration of Trust. Unitholders do not have recourse to a statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive, unfairly prejudicial or unfairly disregard the interests of the securityholders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in certain circumstances whereas Unitholders could rely only on the general provisions of the Declaration of Trust which permits the winding up of the REIT with the approval of at least two-thirds of the votes cast at a meeting of Unitholders called for that purpose. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust does not provide such a right to Unitholders. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings in the name of the REIT.

## DISTRIBUTION POLICY

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

### General

The REIT currently makes cash distributions to Unitholders on each monthly distribution date (subject to an election by Unitholders to utilize the REIT's distribution reinvestment plan) equal to, on an annual basis, approximately 80% of the REIT's distributable income (see "— Computation of Distributable Income" below) although, pursuant to the Declaration of Trust, the REIT is only required to make distributions to Unitholders of its taxable income. Distributions in respect of a month are paid to Unitholders of record as at the close of business on the last business day of the calendar month. The distribution for any month is paid on or about the 15<sup>th</sup> day of the following month. In addition, the Declaration of Trust provides that, if necessary, on December 31 of each year, the REIT will distribute an additional amount to Unitholders such that the REIT will not be liable for tax for such year.

The REIT currently distributes \$0.09375 per Unit on a monthly basis (\$1.125 per Unit on an annualized basis).

Although the REIT intends to make distributions of available cash to Unitholders, these cash distributions are not assured. The ability of the REIT to make cash distributions and the actual amount distributed will be dependent upon, among other things, the financial performance of the properties in its portfolio, debt covenants and obligations, working capital requirements and future capital requirements. The market value of the REIT's Units may deteriorate if the REIT is unable to meet its cash distribution targets in the future and that deterioration may be material.

### Computation of Distributable Income

**Distributable Income is not recognized in Canada under generally accepted accounting principles ("GAAP"), and there is no standardized measure of distributable income. Distributable income is presented in this short form prospectus because management of the REIT believes that this non-GAAP measure is a relevant measure of the ability of the REIT to earn and distribute cash returns to Unitholders. Distributable income of the REIT may differ from similar computations as reported by similar organizations and, accordingly, may not be comparable to distributable income reported by such organizations.**

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

## PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement (the "Underwriting Agreement") dated May 2, 2006 between the REIT and Underwriters, the REIT has agreed to issue and sell an aggregate of \$75,000,000 principal amount of Debentures to the Underwriters, and the Underwriters have severally agreed to purchase from the REIT, as principals, such Debentures on May 16, 2006, or on such later date as the REIT and the Underwriters may agree, but in any event not later than May 23, 2006. Delivery of the Debentures is conditional upon payment on closing by the Underwriters to the REIT of \$1,000 per Debenture for a total consideration of \$75,000,000. The Underwriting Agreement provides that the REIT will pay or cause to be paid to the Underwriters a fee of \$2,812,500 (\$37.50 per Debenture) in consideration of their services in connection with the Offering.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all Debentures if any securities are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the REIT will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

The REIT has been advised by the Underwriters that, in connection with the Offering and subject to applicable laws, the Underwriters may effect transactions that stabilize or maintain the market price of the Debentures at levels other than those which might otherwise prevail on the open market.

The REIT has agreed, subject to certain exceptions, not to create, offer or sell, or enter into an agreement to create, offer or sell, Units or any securities convertible or exchangeable for Units for a period of 90 days subsequent to the closing of the Offering without the consent of the Underwriters, which consent may not be unreasonably withheld.

**There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures.** The TSX has conditionally approved the listing of the Debentures and the Units issuable on conversion of the Debentures. The listing is subject to the REIT fulfilling all the listing requirements of the TSX on or before July 27, 2006.

The Underwriters propose to offer the Debentures initially at the offering price specified on the cover page of this short form prospectus. After the Underwriters have made a reasonable effort to sell all of the Debentures at the price specified on the cover page, the offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page.

RBC Dominion Securities Inc. is an affiliate of a Canadian chartered bank (the “Bank”) that is a lender to the REIT under a revolving credit facility. As at March 31, 2006, approximately \$16.3 million was outstanding under the REIT’s existing credit facility, and the REIT is in compliance in all material respects with the terms thereof. A portion of the proceeds of the Offering may be used to temporarily reduce indebtedness under the existing credit facility. Consequently, the REIT may be considered a connected issuer of such Underwriter under applicable securities laws in certain Canadian provinces. The offering price terms and conditions of the Offering were established through negotiation between the REIT and the Underwriters without involvement of the Bank.

#### CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to the REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to the acquisition, holding and disposition of Debentures or any Units acquired under the terms of the Debentures (collectively, the “Securities”) by a holder who acquires Debentures pursuant to the Offering. This summary is applicable to a holder who, for purposes of the Tax Act, is resident in Canada, deals at arm’s length, and is not affiliated with, the REIT and holds the Securities as capital property. Generally, the Securities will be considered to be capital property to a holder provided the holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain holders who might not otherwise be considered to hold their Securities as capital property may, in certain circumstances, be entitled to make the irrevocable election permitted by subsection 39(4) of the Tax Act to have such securities, and any other “Canadian security” (as defined in the Tax Act) owned in the taxation year in which the election is made and all subsequent taxation years, deemed to be capital property. Such holders should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to (a) a holder that is a “financial institution”, as defined in the Tax Act for purposes of the mark-to-market rules, (b) a holder that is a “specified financial institution”, as defined in the Tax Act or (c) a holder an interest in which would be a “tax shelter investment” as defined in the Tax Act. Such holders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of Securities acquired pursuant to this Offering.

This summary assumes that the REIT does and will continue to qualify as a “mutual fund trust” under the Tax Act while the Debentures and Units remain outstanding. See “— Status of the REIT”.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the “Regulations”) and counsel’s understanding of the current administrative and assessing practices of the Canada Revenue Agency (“CRA”) published in writing prior to the date hereof and certifies as to factual matters. This summary takes into account all specific proposals to amend the Tax Act and the Regulations announced by or on behalf of the Minister of Finance prior to the date hereof (the “Tax Proposals”). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, and does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed herein. This summary assumes that the Tax Proposals will be enacted as proposed, but no assurances can be given that this will be the case. There can be no assurances that the CRA will not change its administrative and assessing practices.

**This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Securities. Moreover, the income and other tax consequences of acquiring, holding or disposing of Securities will vary depending on the holder’s particular circumstances. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Securities. Consequently, a prospective holder should consult the holder’s own tax advisor for advice with respect to the tax consequences of an investment in Securities based on the prospective holder’s particular circumstances.**

## **Taxation of Holders of Debentures**

### *Interest on Debentures*

A holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the holder disposes of the Debentures in the year, that accrues or is deemed to accrue to it until the time of disposition) or that has become receivable by or is received by the holder before the end of that taxation year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was included in computing the holder’s income for a preceding taxation year.

Any other holder will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the holder in that taxation year (depending upon the method regularly followed by the holder in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the holder’s income for a preceding taxation year.

A 1% premium paid by the REIT to a holder of Debentures on a Put Date will generally be deemed to be interest received at that time by the holder if such premium is paid by the REIT because of the repayment by it of the Debentures before their maturity and to the extent that such premium can reasonably be considered to relate to, and does not exceed the value on the Put Date, of the interest that would have been paid or payable by the REIT on the Debentures for taxation years of the REIT ending after the Put Date.

A holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax on investment income, including amounts in respect of interest.

### *Exercise of Conversion Privilege*

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

### *Redemption or Repayment of Debentures*

If the REIT redeems a Debenture prior to maturity or repays a Debenture upon maturity and the holder does not exercise the conversion privilege prior to such redemption or repayment, the holder will be considered

to have disposed of the Debenture for proceeds of disposition equal to the amount received by the holder (other than the amount received on account of interest) on such redemption or repayment. If the holder receives Units on redemption or repayment, the holder will be considered to have proceeds of disposition equal to the aggregate of the fair market value of the Units so received and the amount of any cash received in lieu of fractional units. The holder may realize a capital gain or capital loss computed as described below under “— Dispositions of Debentures”. The cost to the holder of the Units so received will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the holder for the purpose of calculating the adjusted cost base of such Units.

### *Dispositions of Debentures*

A disposition or deemed disposition by a holder of a Debenture will generally result in the holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater (or less) than the aggregate of the holder’s adjusted cost base thereof and any reasonable costs of disposition. Any such capital gain or capital loss will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Units which treatment is discussed below under “Taxation of Holders of Units — Dispositions of Units”.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the holder’s income, except to the extent such amount was otherwise included in the holder’s income, and will be excluded in computing the holder’s proceeds of disposition of the Debenture.

A capital gain realized by a holder who is an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

A Canadian-controlled private corporation that disposes of Debentures may be liable to pay an additional refundable tax on investment income, including taxable capital gains.

## **Taxation of Holders of Units**

### *Distributions on Units*

A holder of Units (including Units acquired under the terms of a Debenture) will generally be required to include in income for a particular taxation year of the holder the portion of the net income of the REIT for the taxation year of the REIT ending in that particular taxation year of the holder, including net realized taxable capital gains, that is paid or payable to the holder in such taxation year of the REIT, whether or not those amounts are paid or payable in cash or are reinvested in additional Units pursuant to the REIT’s distribution reinvestment plan. No amount is required to be included in the income of the holder in respect of the receipt of bonus Units under the REIT’s distribution reinvestment plan.

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

The Declaration of Trust requires the REIT to claim the maximum amount of capital cost allowance available to it in computing its income for tax purposes, unless the Trustees determine otherwise. Based on the REIT’s distribution policy, the amount distributed to holders of Units in a year may exceed the income of the REIT for tax purposes for that year. Distributions in excess of the REIT’s income in a year, including a 3% additional bonus distribution of Units acquired pursuant to the distribution reinvestment plan and amounts that may reasonably be considered to be distributions of any non-taxable dividends received by the REIT (“non-taxable dividend distributions”), will not generally be included in the holder’s income. However, a holder is required to reduce the adjusted cost base of the holder’s Units by the portion of any amount paid or payable to the holder by the REIT (other than the non-taxable portion of certain capital gains and certain non-taxable dividend distributions) that was not included in the holder’s income and the holder will realize a capital gain to the extent the adjusted cost base of the Units would otherwise be a negative amount.

The REIT will designate, to the extent permitted by the Tax Act, the portion of the taxable income distributed to holders of Units as may reasonably be considered to consist of net taxable capital gains of the

REIT. Any such designated amount will be deemed for tax purposes to be received by holders as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. The REIT will also designate, to the extent permitted by the Tax Act, the portion of any taxable dividends received by the REIT from subsidiaries that are taxable Canadian corporations as may reasonably be considered to be an amount included in the income of the holders of Units. Any such designated amount will be deemed for purposes of the Tax Act, other than non-resident withholding purposes, to be received by the holders of Units as a taxable dividend and will be subject to the general rules regarding the taxation of taxable dividends paid by taxable Canadian corporations. Under a Tax Proposal originally released on November 23, 2005 and confirmed in the Federal Budget released on May 2, 2006, dividends received by individuals from a Canadian-controlled private corporation will be eligible for an enhanced dividend tax credit to the extent that the dividends are treated as being paid out of income (other than investment income) that is subject to tax at the general corporate income tax rate. Until draft legislation is released to implement this Tax Proposal, it is unclear whether (and how) it will apply to any distributions made by the REIT that are deemed to be a taxable dividend.

The cost of Units acquired by reinvestment of distributions pursuant to the REIT's distribution reinvestment plan will be the amount of such reinvestment. There will be no net increase or decrease in the adjusted cost base of all of a holder's Units as a result of the receipt of bonus Units under the distribution reinvestment plan. However, the receipt of bonus Units under the Plan will result in a per Unit reduction of adjusted cost base to the holder.

### *Dispositions of Units*

On the disposition or deemed disposition of a Unit, the holder will realize a capital gain (or capital loss) equal to the amount by which the holder's proceeds of disposition exceed (or are less than) the aggregate of the holder's adjusted cost base of the Unit and any reasonable costs of disposition. Proceeds of disposition will not include an amount that is otherwise required to be included in the holder's income. Where a holder of Units that is a corporation or a trust (other than a mutual fund trust) disposes of a Unit, any capital loss from the disposition will be reduced by amounts designated as taxable dividends distributed by the REIT to the holder to the extent and under the circumstances prescribed in the Tax Act. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units. Similar rules also may apply to reduce the amount of capital losses otherwise realized by most taxpayers (including corporations, individuals, and most trusts but not mutual fund trusts) as a result of a disposition of Units by them or a partnership of which they are a member where the REIT has made non-taxable dividend distributions.

Where Units are redeemed by the transfer of Notes to the holder of Units, the proceeds of disposition to the holder of the Units will be equal to the fair market value of the Notes so distributed.

The cost of any Notes transferred by the REIT to a holder of Units upon a redemption of Units will be equal to the fair market value of the Notes at the time of the distribution.

One-half of any capital gains realized by a holder of Units and the amount of any net taxable capital gains designated by the REIT in respect of a holder of Units will be included in the holder's income as a taxable capital gain. One-half of any capital loss realized by a holder of Units may generally be deducted only from taxable capital gains in accordance with the provisions of the Tax Act.

A holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on investment income, including taxable capital gains.

In general terms, net income of the REIT paid or payable to a holder of Units who is an individual that is designated as taxable dividends or as net realized capital gains and capital gains realized on the disposition of Units may increase the holder's liability for alternative minimum tax.

## **Status of the REIT**

### *Mutual Fund Trust*

The REIT currently qualifies as a "unit trust" as defined in the Tax Act, and this summary assumes that the REIT will continue to so qualify at all times. This summary also assumes that the REIT does and will continue to

qualify as a “mutual fund trust” under the provisions of the Tax Act while the Debentures and Units remain outstanding. In order to qualify as a “mutual fund trust” at any particular time, the REIT must be a unit trust and there must be at least 150 holders of Units, each of whom owns not less than one “block” of Units and each of whom owns Units having a fair market value of not less than \$500. A block of Units means 100 Units where the fair market value of one Unit is less than \$25. In addition, the REIT may not at any time reasonably be considered to be established or maintained primarily for the benefit of persons who are not resident in Canada. Lastly, the only undertaking of the REIT must be the investing of its funds in property (other than real property or interests therein), or acquiring, holding, maintaining, improving, leasing or managing any real property (or interests in real property) that is capital property of the REIT, or a combination of these activities.

**If the REIT were not to qualify as a mutual fund trust, the income tax considerations described herein would, in some respects, be materially different.**

Under draft legislation that was released on September 16, 2004 by the Department of Finance, an income fund will cease to qualify as a mutual fund trust if at any time after 2004 the fair market value of all units held by non-residents of Canada, or by partnerships which are not “Canadian partnerships” for purposes of the Tax Act, is more than 50% of the fair market value of all issued and outstanding units issued by the trust where more than 10% (based on fair market value) of the trust’s property is specified types of taxable Canadian property or certain other types of property. For this purpose, a partnership would only qualify as a “Canadian partnership” at a particular time if all its members at that time are resident in Canada. There is no provision in the draft legislation which would allow for rectification of the loss of mutual fund trust status.

On December 6, 2004, a Notice of Ways and Means Motion, including other changes affecting mutual fund trusts, was tabled which did not include the proposed changes referred to above. In a concurrent release, the Department of Finance announced that implementation of the proposed changes would be suspended so as to allow further consultation with interested parties.

### **Qualified Investment**

Provided that the REIT is a mutual fund trust within the meaning of the Tax Act and (respecting the qualification of the Debentures) the Units are listed on a prescribed stock exchange in Canada, the Debentures will, on the date of the closing of the Offering, be qualified investments for Exempt Plans and Units acquired under the terms of the Debentures, if issued on such date, would be qualified investments for Exempt Plans. If the REIT ceases to qualify as a mutual fund trust, the Debentures and Units will cease to be qualified investments for Exempt Plans; and the Debentures will also cease to be qualified investments for Exempt Plans if the Units cease to be listed on a prescribed stock exchange.

### **Taxation of the REIT**

The taxation year of the REIT is the calendar year. In each taxation year, the REIT will be subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less the portion thereof that it deducts in respect of the amounts paid or payable or deemed to be paid or payable in the year to holders of Units. An amount will be considered to be payable to a holder of Units in a taxation year if it is paid to the holder in the year by the REIT or if the holder is entitled in that year to enforce payment of the amount.

Counsel has been advised that the REIT intends to make distributions in each year that are not less than its income for purposes of the Tax Act, including net realized capital gains, so that the REIT will generally not be liable in such year for income tax under Part I of the Tax Act. Losses incurred by the REIT cannot be allocated to holders of Units, but may be deducted by the REIT in future years in accordance with the Tax Act.

In the event the REIT is otherwise liable for tax on its net realized taxable capital gains for a taxation year, it will be entitled for such taxation year to reduce (or receive a refund in respect of) its liability for such tax by an amount determined under the Tax Act based on the redemption of Units during the year (the “Capital Gains Refund”). In certain circumstances, the Capital Gains Refund in a particular taxation year may not completely offset the REIT’s tax liability for such taxation year arising as a result of the distribution of Notes in connection with the redemption of Units. Thus, the Declaration of Trust provides that any capital gains realized by the

REIT as a result of such redemption may be allocated to the holders of Units redeeming their Units. The taxable portion of such capital gains must be included in the income of the redeeming holder of Units.

The Tax Act provides for a special tax on the designated income (including income from Canadian real property) of certain trusts which have designated beneficiaries (including non-resident persons and certain tax-exempt persons). This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided the REIT qualifies as a “mutual fund trust” throughout a taxation year, it will not be subject to the special tax for such taxation year.

## **RISK FACTORS**

An investment in the Debentures involves a number of risks. In addition to those risk factors described under “Special Note Regarding Forward-Looking Statements” and listed at pages 39 to 50 of the AIF, as well as other information contained in this short form prospectus, investors should carefully consider the following risks before investing in the Debentures.

### **Acquisition Risk**

The Delta Acquisition is subject to commercial risks and enumerated closing conditions such that there is a risk that it may not close on the terms negotiated or at all. If the Delta Acquisition does not close and the REIT does not utilize the proceeds of the Offering to fund additional acquisitions or capital expenditures in a timely manner, the issuance of the Debentures pursuant to the Offering may be dilutive to future cash distributions.

### **Matters Affecting Trading Prices for the Debentures**

There is currently no trading market for the Debentures. The REIT has applied to have the Debentures listed on the TSX. The TSX has conditionally approved the listing of such securities. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Units, general economic conditions and the REIT’s financial condition, historic financial performance and future prospects.

### **Tax-Related Risks**

There can be no assurance that the Units and the Debentures will continue to be qualified investments for Exempt Plans. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments. See “Eligibility for Investment” and “Certain Canadian Federal Income Tax Considerations”.

There can be no assurance that the laws and regulations and the administrative and assessing practices of the CRA respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the holders of Units or Debentures. If the REIT ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under “Certain Canadian Income Tax Considerations” and “Eligibility for Investment” above would be materially and adversely different in certain respects.

Although the REIT is of the view that all expenses to be claimed by the REIT and its subsidiaries in the determination of their respective incomes under the Tax Act will be reasonable and deductible in accordance with the applicable provisions of the Tax Act, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA will agree with the expenses claimed.

Interest on the indebtedness owing to the REIT by an indirect holding company for InnVest Properties will accrue to the REIT for income tax purposes whether or not actually paid. The Declaration of Trust provides that an amount equal to the REIT’s taxable income will be distributed each year to Unitholders in order to reduce the REIT’s taxable income to nil. Where interest payments on such Notes are due but not paid in whole or in part such that there is insufficient cash for distributions, the Declaration of Trust provides that additional Units must be distributed to Unitholders in lieu of cash distributions.

Where Units are issued to Unitholders in lieu of cash distributions, including in the circumstances set out above, Unitholders will generally be required to include an amount equal to the fair market value of those Units in computing their taxable income.

Under draft legislation that was released on September 16, 2004 by the Department of Finance, an income fund will cease to qualify as a mutual fund trust if at any time after 2004 the fair market value of all units held by non-residents of Canada, or by partnerships which are not “Canadian partnerships” for purposes of the Tax Act, is more than 50% of the fair market value of all issued and outstanding units issued by the trust where more than 10% (based on fair market value) of the trust’s property is specified types of taxable Canadian property or certain other types of property. For this purpose, a partnership would only qualify as a “Canadian partnership” at a particular time if all its members at that time are resident in Canada. There is no provision in the draft legislation which would allow for rectification of the loss of mutual fund trust status. On December 6, 2004, a Notice of Ways and Means Motion, including other changes affecting mutual fund trusts, was tabled which did not include the proposed changes referred to above. In a concurrent release, the Department of Finance announced that implementation of the proposed changes would be suspended so as to allow further consultation with interested parties.

On September 8, 2005, the Department of Finance (Canada) released a consultation paper on tax and other issues related to publicly listed flow-through entities such as income trusts and limited partnerships and invited interested parties to make submissions prior to December 31, 2005. In addition, on September 19, 2005, the Minister of Finance announced that the CRA would postpone providing advance tax rulings respecting flow-through entity structures pending these consultations. On November 23, 2005, the Minister of Finance announced the end of this consultation process and no legislative amendments were proposed to change the taxation of income trusts. Instead, the Minister of Finance tabled a Notice of Ways and Means Motion that proposed to enhance the dividend gross-up and tax credit mechanism applicable to certain eligible dividends payable by corporations resident in Canada after 2005. In addition, the CRA has resumed providing advance tax rulings in respect of flow-through entity structures. Although the consultation process did not result in the introduction of any taxation initiatives that would impose taxes on flow-through entities such as the REIT or direct or indirect investors in flow-through entities, or that would otherwise restrict investments in such entities, there can be no assurance that the Department of Finance or other governmental authority will not undertake any such initiative at any future date.

#### **Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection**

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the REIT and its creditworthiness. In addition, the Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT’s existing and future Senior Indebtedness. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT’s assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of the REIT’s subsidiaries except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Indenture does not prohibit or limit the ability of the REIT or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness) or to make distributions, except, in respect of distributions, where an Event of Default has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving the REIT.

#### **Conversion Following Certain Transactions**

In the case of certain transactions, each Debenture will become convertible into the securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if the REIT were acquired in a cash merger, each Debenture would become convertible solely into cash and would no

longer be convertible into securities whose value would vary depending on the REIT's future prospects and other factors. See "Description of the Debentures — Conversion Rights".

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

The Units of the REIT will not necessarily trade at values determined by reference to the underlying value of the REIT's business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield on other financial instruments may also influence the price of Units in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units.

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

The Declaration of Trust imposes restrictions on non-resident Unitholders who are prohibited from beneficially owning more than 49% of the Units. This restriction may limit the rights of certain Unitholders, including non-residents of Canada, to acquire Units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and thereby adversely affect the liquidity and market value of the Units held by the public.

### **Structural Subordination of Units**

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the REIT and those subsidiaries before any assets are made available for distribution to the Unitholders. The Units will be effectively subordinated to most of the indebtedness and other liabilities of the REIT and its subsidiaries, expected to be approximately \$596.0 million upon the closing of the transactions contemplated by this prospectus. Neither the REIT nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

## **EXPERTS**

The matters referred to under "Eligibility for Investment" and "Certain Canadian Federal Income Tax Considerations", as well as certain other legal matters in connection with the issue and sale of the Debentures will be passed upon for the REIT by Davies Ward Phillips & Vineberg LLP and for the Underwriters by Osler, Hoskin & Harcourt LLP. As of the date hereof, the partners and associates of each of the foregoing firms, own beneficially, directly or indirectly, less than one percent of any securities of the REIT.

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

The auditors of the REIT are Deloitte & Touche LLP, Chartered Accountants, BCE Place, 181 Bay Street, Suite 1400, Toronto, Ontario M5J 2V1.

The transfer agent and registrar for the Debentures and the Units is Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

## **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces, securities legislation further provides the purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for particulars of these rights or consult with a legal adviser.

## AUDITORS' CONSENT

We have read the short form prospectus of InnVest Real Estate Investment Trust (the "REIT") dated May 9, 2006 qualifying the distribution of \$75,000,000 aggregate principal amount of 6.00% convertible unsecured subordinated debentures of the REIT. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the Trustees of the REIT on the consolidated balance sheets of the REIT as at December 31, 2004 and 2005 and the consolidated statements of net income, unitholders' equity and cash flows for the years then ended. Our report is dated March 7, 2006.

Toronto, Ontario  
May 9, 2006

(Signed) DELOITTE & TOUCHE LLP  
Chartered Accountants

## CERTIFICATE OF THE REIT

Dated: May 9, 2006

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(Signed) KENNETH D. GIBSON  
President and Chief Executive Officer

(Signed) TAMARA LAWSON  
Chief Financial Officer

On behalf of the Board of Trustees

(Signed) FRANK ANDERSON  
Trustee

(Signed) MICHAEL P. KITT  
Trustee

## CERTIFICATE OF THE UNDERWRITERS

Dated: May 9, 2006

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of all of the provinces of Canada. For the purpose of the Province of Québec, to our knowledge, this simplified prospectus, together with documents incorporated herein by reference and as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

RBC DOMINION SECURITIES INC.

(Signed) RICHARD N. MATHESON

SCOTIA CAPITAL INC.

(Signed) STEPHEN SENDER

CIBC WORLD MARKETS INC.

(Signed) ALLAN S. KIMBERLEY

BMO NESBITT BURNS INC.

(Signed) STEPHEN TILLER

TD SECURITIES INC.

(Signed) KURSAT KACIRA



# InnVest

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