

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This 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. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "1933 Act"), and accordingly will not be offered, sold or delivered, directly or indirectly within the United States of America, its possessions and other areas subject to its jurisdiction or to, or for the account or for the benefit of, a U.S. person (as defined in Regulation S under the 1933 Act), except in limited circumstances. See "Plan of Distribution".

PROSPECTUS

Initial Public Offering

July 18, 2002



INNVEST REAL ESTATE INVESTMENT TRUST

\$300,000,000

30,000,000 Units

This prospectus qualifies the distribution of 30,000,000 units (the "Offered Units") of InnVest Real Estate Investment Trust ("InnVest REIT" or the "REIT"). InnVest REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario which has been formed to acquire, directly and indirectly, concurrently with the closing of this offering, a portfolio of 114 Canadian hotel properties operated under international brands (the "Portfolio"), with a total of 11,602 guest rooms, and a 50% interest in Choice Hotels Canada Inc., and to acquire additional hotel properties as opportunities arise. InnVest REIT is principally focused on the ownership and acquisition of limited service hotels, substantially all the revenues of which are generated from guest room rentals. See "InnVest Real Estate Investment Trust". Westmont Hospitality Canada Limited will be the manager of all of the hotels in the Portfolio.

This prospectus also qualifies the distribution of 11,068,910 units (the "Vendor Units") of InnVest REIT and \$75 million aggregate principal amount of unsecured subordinated convertible debentures (the "Vendor Convertible Debentures") of the REIT due June 30, 2007. Concurrently with the closing of this offering, Whitehall Street Real Estate Limited Partnership XI ("Whitehall XI"), Whitehall Street Real Estate Limited Partnership V, Whitehall Street Real Estate Limited Partnership IX and certain of their affiliates (collectively, the "Whitehall Funds") and Maple Leaf Investment Holdings, L.P. ("Maple Leaf"), affiliates of the current owners of the hotels included in the Portfolio, and a Canadian chartered bank will purchase 3,990,203, 3,078,707 and 4,000,000 Vendor Units, respectively, at a price of \$10.00 per unit, and the Whitehall Funds will purchase the Vendor Convertible Debentures at par. Upon the completion of this offering, but without giving effect to the exercise of the Over-Allotment Option (as defined below), the Whitehall Funds will own 9.7% of the outstanding units ("Units") of InnVest REIT (22.8% after giving effect to the conversion of all of the Vendor Convertible Debentures), and Maple Leaf, a part of the Westmont Hospitality Group, will own 7.5% of the outstanding Units (6.4% after giving effect to the conversion of all of the Vendor Convertible Debentures). See "Financing Arrangements — Vendor Convertible Debentures" and "Promoters and Principal Unitholders".

The primary objectives of InnVest REIT are: (i) to provide holders of Units with stable and growing cash distributions, payable monthly, principally from the ownership of limited service hotels; and (ii) to maximize long-term Unit value by implementing the REIT's business strategy.

InnVest REIT currently intends to make cash distributions to holders of Units on the 15<sup>th</sup> day of each month beginning in the second month following the closing of this offering equal to, on an annual basis, approximately 90% of the REIT's Distributable Income, calculated as described under "Distribution Policy".

**There are certain risk factors inherent in an investment in the Offered Units and the activities of InnVest REIT, including the possibility of unitholder liability. See "Risk Factors".**

**Price: \$10.00 Per Unit**

	Price to the Public	Underwriters' Fee	Net Proceeds to InnVest REIT <sup>(1)</sup>
Per Offered Unit	\$10.00	\$0.55	\$9.45
Total Offering <sup>(2)(3)</sup>	\$300,000,000	\$16,500,000	\$283,500,000

- (1) After deducting the Underwriters' Fee but before deducting expenses of this offering, estimated to be \$6,445,000, which, together with the Underwriters' Fee, will be paid by InnVest REIT from the proceeds of this offering.
- (2) InnVest REIT has granted to the Underwriters an option (the "Over-Allotment Option"), exercisable for a period of 30 days after the closing of the sale of the Offered Units, to purchase up to an additional 3,000,000 Units on the same terms set forth above solely to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to InnVest REIT will be \$330,000,000, \$18,150,000 and \$311,850,000, respectively. The net proceeds, if any, from the sale of Units pursuant to the Over-Allotment Option will be used to repurchase that number of Vendor Units from the Whitehall Funds. This prospectus qualifies the distribution of the Over-Allotment Option and the Units issuable on the exercise thereof.
- (3) In addition to the offering to the public, the total Price to the Public and Net Proceeds to InnVest REIT from the sale of the Vendor Units will be \$110,689,100 (\$10.00 per Vendor Unit). The total Price to the Public and Net Proceeds to InnVest REIT from the sale of the Vendor Convertible Debentures will be \$75 million (issued at par). No Underwriters' Fee will be payable in respect of the distribution of the Vendor Units or the Vendor Convertible Debentures.

(continued on next page)

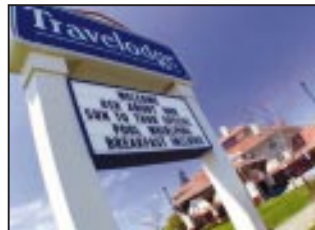
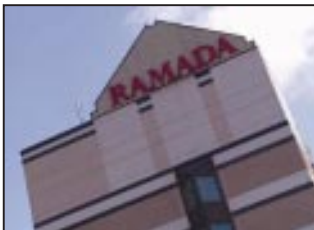


# InnVest

R · E · I · T



● Number of hotels



*(continued from cover)*

**InnVest REIT is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada) and are not insured under the provisions of that Act or any other legislation.**

RBC Dominion Securities Inc., Goldman Sachs Canada Inc., CIBC World Markets Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc. and Raymond James Ltd. (collectively, the “Underwriters”), as principals, conditionally offer the Offered Units, subject to prior sale, if, as and when issued and delivered by InnVest 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”.

**There is currently no market through which the Units may be sold, and purchasers may not be able to resell securities purchased under this prospectus.** The Toronto Stock Exchange has conditionally approved the listing of the Units. Listing is subject to InnVest REIT fulfilling all of the requirements of The Toronto Stock Exchange on or before October 14, 2002, including the distribution of the Units to a minimum number of public security holders. The price of the Offered Units was established by negotiation between InnVest REIT, the Whitehall Funds, Maple Leaf, Maple Leaf Investments, L.P. and the Underwriters. The price of the Vendor Units was determined by negotiation between InnVest REIT, the Whitehall Funds and Maple Leaf. The price and terms of the Vendor Convertible Debentures were determined by negotiation between InnVest REIT and the Whitehall Funds.

One of the Underwriters, Goldman Sachs Canada Inc., is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (“GS Group”). Subsidiaries of GS Group are the general partners of each of the Whitehall Funds, and GS Group has an ownership interest in each of the Whitehall Funds. Goldman, Sachs & Co., an affiliate of GS Group, is the investment manager for each of the Whitehall Funds. A portion of the proceeds from this offering will be used to purchase the interests in certain assets of entities owned directly or indirectly by the Whitehall Funds. See “Use of Proceeds”. Whitehall XI will be the largest single holder of Units following the closing of this offering and is a promoter of InnVest REIT for the purposes of applicable Canadian securities legislation. See “Promoters and Principal Unitholders”. **Accordingly, Goldman Sachs Canada Inc. may be considered to be a related issuer and a connected issuer of InnVest REIT for the purposes of applicable Canadian securities legislation.** See “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. Book entry only certificates representing the Units will be issued in registered form to The Canadian Depository for Securities Limited (“CDS”) or its nominee and will be deposited with CDS on the date of closing, which is expected to occur on or about July 26, 2002, but in any event not later than August 30, 2002. A purchaser of Offered Units pursuant to this offering will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom the Offered Units are purchased.

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Trademarks used in this prospectus are the property of their respective owners. Capitalized terms that are not otherwise defined in this prospectus have the respective meanings set out in Appendix A — Glossary of Terms. “InnVest REIT” or “the REIT” refers to InnVest Real Estate Investment Trust and its subsidiary entities unless otherwise indicated or the context otherwise requires. Unless otherwise indicated, all dollar amounts contained in this prospectus are expressed in Canadian dollars. Unless otherwise indicated, information in this prospectus does not give effect to the exercise of the Over-Allotment Option.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in the prospectus.*

### **InnVest Real Estate Investment Trust**

InnVest Real Estate Investment Trust is an unincorporated open-ended real estate investment trust created by the Declaration of Trust and governed by the laws of the Province of Ontario.

At Closing, InnVest REIT will, directly and indirectly, acquire the Portfolio consisting of 114 Canadian hotel properties, with 11,602 guest rooms, operated under international brands. InnVest REIT is principally focused on the ownership and acquisition of limited service hotels, substantially all the revenues of which are generated from guest room rentals. InnVest REIT will also indirectly own 50% of Choice Canada, the largest franchisor of hotels in Canada, as measured by hotels under franchise. See “Assets of InnVest REIT”.

### **InnVest REIT Investment Opportunity**

InnVest REIT will have two primary objectives: (i) to provide Unitholders with stable and growing cash distributions, payable monthly, principally from the ownership of limited service hotels; and (ii) to maximize long-term Unit value by implementing the REIT’s business strategy.

Management of InnVest REIT believes that the REIT will be well positioned to achieve these objectives for reasons including the following:

- **Canada’s Largest Portfolio:** At Closing, InnVest REIT will own Canada’s largest hotel portfolio, as measured both by number of hotels and by number of guest rooms. Management expects to be able to leverage the REIT’s size and scale to achieve operating efficiencies relative to its competitors. See “Competitive Strengths — Canada’s Largest Portfolio of Hotel Properties”.
- **International Brands:** All of the hotels in the Portfolio are flagged with international brands. The majority of the hotels in the Portfolio are flagged with Choice brands, which include Comfort Inn<sup>®</sup>, Quality Inn<sup>®</sup>, Quality Hotel<sup>®</sup> and Quality Suites<sup>®</sup>. The Choice brands enjoy a prominent position in the Canadian hospitality market, with approximately 255 franchised locations open or under development, with more than 20,000 guest rooms (including the Choice-branded hotels in the Portfolio). Other international brands, including Travelodge<sup>®</sup>, Best Western<sup>®</sup>, Holiday Inn Express<sup>®</sup> and Ramada Inn<sup>®</sup>, are also represented in the Portfolio. The Portfolio benefits from the international reputation of these brands. See “Competitive Strengths — International Brands”.
- **Consistent Market Outperformance:** The Portfolio has consistently outperformed the Canadian limited service hotel sector since its acquisition by entities owned by the Whitehall Funds and Westmont Holdings. For each of the past three calendar years, occupancy, average daily rate (ADR) and revenue per available room (RevPAR) levels for the Portfolio have exceeded Canadian industry averages for limited service hotels. See “Canadian Hotel Market — Industry Performance” and “Assets of InnVest REIT — Hotel Portfolio Performance”.
- **Diverse Portfolio and Customer Base:** The hotels in the Portfolio are located in every province of Canada, with the majority of the hotels located in urban and suburban areas of Ontario and Quebec where the majority of Canada’s population and business activity are located. The Portfolio also has a diverse customer base, including business travellers, leisure travellers, group organizations and corporate clients. This diversity has been a factor in providing relative stability to the Portfolio’s operating and financial performance by limiting reliance on any one location or business sector. See “Competitive Strengths — Portfolio Diversity” and “Appendix B — Hotel Property Locations”.
- **Stability of the Limited Service Sector:** The Portfolio is composed primarily of limited service hotels. Management of InnVest REIT believes that hotel properties in the limited service sector have greater resistance to recessionary economic conditions than full service hotels because limited service hotels generally have lower fixed costs and their revenues are generally less sensitive to economic downturns.

Hotels in the Canadian limited service sector have performed better, in terms of compound annual growth rates (CAGR) in ADR and RevPAR, over the last five years than the Canadian hotel market as a whole. See “Canadian Hotel Market — Limited Service Sector”.

- **Experience of the Manager:** Upon completion of the offering, the Portfolio will be managed by the Manager, part of the Westmont Group, pursuant to a master hotel management agreement. See “Management of InnVest REIT — Master Hotel Management Agreement”. An affiliate of the Manager and its employees have provided management services for all of the hotels since they were acquired by the Whitehall Funds and Westmont Holdings. The principals of the Westmont Group have a 28-year track record of acquiring and managing hotels in North America, Europe and Asia, and providing service to the hospitality sector. See “Competitive Strengths — Experience of the Manager” and “Westmont Group”.
- **Strategic Relationships:** Whitehall XI, Maple Leaf and Maple Leaf Investments, L.P. are the promoters of InnVest REIT, and the Whitehall Funds and Maple Leaf will each have a significant equity interest in the REIT upon the completion of this offering. The Promoters or their affiliates have extensive experience in hotel investment and ownership, and relationships with hotel industry participants and financial institutions that management of InnVest REIT believes may assist the REIT in achieving its business objectives. See “Competitive Strengths — Strategic Relationships”.

### The Offering

<b>Offered Units</b>	30,000,000 Units
<b>Vendor Units</b>	11,068,910 Units
<b>Total</b>	<u>41,068,910 Units</u>

<b>Price</b>	\$10.00 per Unit
<b>Over-Allotment Option</b>	Up to 3,000,000 Units

**Units** An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit represents an equal undivided beneficial interest in any distributions from InnVest REIT, whether of net income, net realized capital gains or other amounts, and in the net assets of the REIT in the event of its termination or winding-up. All Units are of the same class with equal rights and privileges. Each Unit entitles the holder thereof to one vote for each whole Unit held at all meetings of Unitholders. See “Declaration of Trust and Description of Units — Units”.

**Distribution Policy** InnVest REIT intends to distribute, to the extent possible, equal monthly cash distributions to Unitholders, on or about the 15<sup>th</sup> day of each month (with the January 15<sup>th</sup> distribution being payable as of the preceding December 31<sup>st</sup>), beginning in the second month following the month during which Closing occurs, constituting not less than 80% of the REIT’s Distributable Income (calculated as described under “Distribution Policy”) based on the estimated Distributable Income for the calendar year. The REIT currently intends to distribute approximately 90% of its Distributable Income on an annual basis. Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements which will initially be set at 4% of gross revenues. Distributions will be made in cash and may be reinvested in additional Units through the REIT’s distribution reinvestment plan, once implemented. See “Distribution Policy”. Management of InnVest REIT estimates that approximately 10% of the distributions to be made by InnVest REIT to Unitholders in 2002 will not be currently taxable to a Unitholder. In 2003, it is estimated that the tax-deferred portion will increase to approximately 21%. See “Distribution Policy — Tax Deferral on Distributions”.

**Board of Trustees**

The Declaration of Trust provides that the Board of Trustees of InnVest REIT will consist of a minimum of five Trustees and a maximum of nine Trustees. The number of Trustees has initially been set at seven. The Whitehall Funds will initially be entitled to appoint two of the seven Trustees, and the Westmont Group will initially be entitled to appoint one Trustee. See “Management of InnVest REIT — Board of Trustees”.

**Vendor Convertible Debentures**

At Closing, the Whitehall Funds will purchase from InnVest REIT \$75 million aggregate principal amount of Vendor Convertible Debentures at par. The Vendor Convertible Debentures will be convertible at any time, in whole or in part from time to time, at the option of the holder into Units at a conversion rate of 93.0233 Units per \$1,000 principal amount of Vendor Convertible Debentures (representing a conversion price of \$10.75 per Unit), subject to anti-dilution adjustments. The Vendor Convertible Debentures will bear interest at a rate of 9.75% per annum, payable semi-annually in arrears, and will mature on June 30, 2007. Provided that there is not a then current event of default, and subject to obtaining all necessary regulatory approvals, InnVest REIT may elect to satisfy its obligation to pay interest on the Vendor Convertible Debentures by issuing and delivering freely tradeable Units to the trustee under the Trust Indenture. In that case, holders of Vendor Convertible Debentures will be entitled to receive a cash payment from the proceeds from the sale of Units by the trustee under the Trust Indenture adequate to satisfy the REIT’s interest payment obligations.

The Vendor Convertible Debentures will not be redeemable prior to June 30, 2005. On and after July 1, 2005, the Vendor Convertible Debentures will be redeemable at the option of InnVest REIT, in whole or in part from time to time, 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 five trading days prior to the date on which the notice of redemption is given exceeds 115% of the conversion price.

Provided that there is not a then current event of default, InnVest REIT will have the option to satisfy its obligation to pay all or a portion of the principal amount of the Vendor Convertible Debentures due at maturity or upon redemption by issuing that number of Units equal to the aggregate principal amount of the Vendor Convertible Debentures maturing or to be redeemed divided by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending five trading days prior to the date of redemption or maturity, as applicable. See “Financing Arrangements — Vendor Convertible Debentures”.

**Use of Proceeds**

The net proceeds of approximately \$277,055,000 to InnVest REIT from this offering, together with the proceeds of \$185,689,100 to InnVest REIT from the sale of the Vendor Units and the Vendor Convertible Debentures, will be used: (i) to acquire, directly and indirectly, the Portfolio net of debt assumed and a 50% interest in Choice Canada and related assets (approximately \$430,000,000); (ii) to pay land transfer taxes and other transfer taxes and acquisition expenses relating to the transfer of the Portfolio (approximately \$6,700,000); and (iii) to repay certain assumed indebtedness (approximately \$12,000,000); and (iv) for working capital and the general purposes of InnVest REIT. The net proceeds to InnVest REIT, if any, from the sale of Units pursuant to the Over-Allotment Option will be used to repurchase that number of Vendor Units from the Whitehall Funds. See “Use of Proceeds”.

### Selected Financial Forecast Data

The financial forecast information set forth below is excerpted from the financial forecast prepared by management of Westmont Hospitality Management Limited on behalf of InnVest REIT using assumptions with an effective date of July 18, 2002. These assumptions reflect management's intended course of action for InnVest REIT, given management's judgment as to the most probable set of economic conditions. **Some of the assumptions used in the preparation of the forecast, although considered appropriate at the time of preparation, may prove to be incorrect. The actual results for the forecast period will vary from the forecast results and the variations may be material.** See "Financial Forecast".

#### Forecast Consolidated Net Income and Distributable Income

(in thousands of dollars, except per Unit amounts)

	Three Months Ending		Six Months Ending December 31, 2002	Three Months Ending		Six Months Ending June 30, 2003	Twelve Months Ending June 30, 2003
	September 30, 2002	December 31, 2002		March 31, 2003	June 30, 2003		
Hotel revenues . . . . .	\$82,810	\$54,231	\$137,041	\$48,647	\$64,746	\$113,393	\$250,434
Hotel expenses							
Operating expenses . . . . .	33,641	27,999	61,640	27,436	30,262	57,698	119,338
Property taxes, rent and insurance	5,986	5,965	11,951	6,061	6,081	12,142	24,093
Management fees . . . . .	2,795	1,830	4,625	1,642	2,185	3,827	8,452
	<u>42,422</u>	<u>35,794</u>	<u>78,216</u>	<u>35,139</u>	<u>38,528</u>	<u>73,667</u>	<u>151,883</u>
Operating income . . . . .	<u>40,388</u>	<u>18,437</u>	<u>58,825</u>	<u>13,508</u>	<u>26,218</u>	<u>39,726</u>	<u>98,551</u>
Other (income) and expenses							
Interest on mortgages and other debt . . . . .	6,159	6,138	12,297	6,118	6,095	12,213	24,510
Corporate and administrative . . .	750	750	1,500	750	750	1,500	3,000
Capital tax . . . . .	495	495	990	495	495	990	1,980
Franchise business income, net . .	(909)	(490)	(1,399)	(160)	(410)	(570)	(1,969)
Other income . . . . .	(84)	(101)	(185)	(48)	(38)	(86)	(271)
Depreciation and amortization . .	8,125	8,125	16,250	8,125	8,125	16,250	32,500
	<u>14,536</u>	<u>14,917</u>	<u>29,453</u>	<u>15,280</u>	<u>15,017</u>	<u>30,297</u>	<u>59,750</u>
Income (loss) before income tax expense . . . . .	<u>25,852</u>	<u>3,520</u>	<u>29,372</u>	<u>(1,772)</u>	<u>11,201</u>	<u>9,429</u>	<u>38,801</u>
Income tax expense							
Current . . . . .	317	317	634	317	317	634	1,268
Future . . . . .	(435)	(435)	(870)	(542)	(542)	(1,084)	(1,954)
	<u>(118)</u>	<u>(118)</u>	<u>(236)</u>	<u>(225)</u>	<u>(225)</u>	<u>(450)</u>	<u>(686)</u>
Net income (loss) . . . . .	<u>\$25,970</u>	<u>\$ 3,638</u>	<u>\$ 29,608</u>	<u>\$(1,547)</u>	<u>\$11,426</u>	<u>\$ 9,879</u>	<u>\$ 39,487</u>

	Three Months Ending		Six Months	Three		Six Months	Twelve Months
	September 30, 2002	December 31, 2002	Ending December 31, 2002	Months Ending March 31, 2003	Months Ending June 30, 2003	Ending June 30, 2003	Ending June 30, 2003
Add (deduct)							
Depreciation and amortization . .	8,125	8,125	16,250	8,125	8,125	16,250	32,500
Amortization of fair value debt adjustment . . . . .	(341)	(341)	(682)	(341)	(341)	(682)	(1,364)
Future income taxes . . . . .	(435)	(435)	(870)	(542)	(542)	(1,084)	(1,954)
Reserve for replacement of furniture, fixtures and equipment and capital improvements . . . . .	(3,312)	(2,169)	(5,481)	(1,946)	(2,590)	(4,536)	(10,017)
Interest on convertible debentures . . . . .	(1,828)	(1,828)	(3,656)	(1,828)	(1,828)	(3,656)	(7,312)
	<u>2,209</u>	<u>3,352</u>	<u>5,561</u>	<u>3,468</u>	<u>2,824</u>	<u>6,292</u>	<u>11,853</u>
Forecast Consolidated Distributable Income . . . . .	<u>\$28,179</u>	<u>\$ 6,990</u>	<u>\$ 35,169</u>	<u>\$ 1,921</u>	<u>\$14,250</u>	<u>\$ 16,171</u>	<u>\$ 51,340</u>
Forecast Distributable Income Per Unit — basic <sup>(1)</sup> . . . . .	<u>\$ 0.69</u>	<u>\$ 0.17</u>	<u>\$ 0.86</u>	<u>\$ 0.05</u>	<u>\$ 0.35</u>	<u>\$ 0.39</u>	<u>\$ 1.25</u>
Forecast Distributable Income Per Unit — diluted <sup>(2)</sup> . . . . .	<u>\$ 0.61</u>	<u>\$ 0.17</u>	<u>\$ 0.79</u>	<u>\$ 0.05</u>	<u>\$ 0.33</u>	<u>\$ 0.39</u>	<u>\$ 1.20</u>

(1) It is assumed that 41,068,910 Units will be issued and outstanding at Closing.

(2) Assumes that the Vendor Convertible Debentures principal was repaid in Units at the beginning of the forecast period based on a market value of \$10 and that 7,894,737 Units were issued.

## Canadian Hotel Market

Canada has more than 3,200 hotel properties (with 30 guest rooms or more), representing more than 300,000 guest rooms, ranging from small, independently owned and operated hotels and motels to large, full service branded hotels. Of these hotels, approximately 41% are considered limited service hotel properties, which are properties that generally provide only limited food and beverage or other ancillary services, generate substantially all revenues from guest room rentals and tend to target more price-sensitive segments of the market. A typical limited service property features a low-rise building that does not offer recreational facilities, large meeting spaces or extensive food and beverage facilities. Other market segments include various types of full service hotels, which can be categorized as mid-scale hotels, which target the traveller seeking some ancillary services such as a restaurant, recreation facilities or meeting space; first-class hotels, which target the traveller seeking a higher-end hotel with a full range of services available; and luxury hotels, which target the traveller demanding an upscale hotel or resort.

The Canadian accommodation industry generated revenues of \$10.6 billion in 2000 and is an industry that has generally enjoyed increasing levels of profitability over the past decade. Several external factors have helped improve overall profitability, including growth in the domestic economy, growth in tourism and the relative weakness of the Canadian dollar.

In 2001, the Canadian accommodation industry weathered both an economic slowdown and the events of September 11, 2001, the primary impact of which was reflected in the under-performance of assets located in major business centres and in the Toronto airport market.

Hotel properties in the limited service segment have exhibited greater resistance to recessionary economic conditions than their full service counterparts. This is due to a number of factors, including more affordable room rates, the fact that fixed costs represent a smaller proportion of the cost structure and a reduced reliance on “fly-to-destination” customers. According to PKF data, limited service hotels typically achieve gross operating profit margins that are higher than most first-class or luxury hotels by 10% to 15% of revenue, thereby enabling them to better withstand recessionary economic conditions.

According to PKF data, the limited service sector has outperformed the overall Canadian hotel market since 1997, with cumulative ADR and RevPAR growth in the sector of 28.0% and 20.9%, respectively, which compares favourably to the cumulative ADR and RevPAR growth for the market as a whole of 21.8% and 13.1%, respectively.

## Assets of InnVest REIT

Upon Closing, InnVest REIT will own Canada’s largest hotel portfolio, as measured both by number of hotels and number of guest rooms. Geographically, its principal guest room concentrations are in Ontario and Quebec, which together represent 73% of guest rooms. Choice Canada brands, including Comfort and Quality, make up 77% of the Portfolio’s guest rooms. Travelodge is the other significant brand at 18% of the Portfolio’s guest rooms. Set out below is a summary description of the assets under each flag.

<u>Flag</u>	<u>No. of Hotels</u>	<u>No. of Guest Rooms</u>	<u>% of Total Guest Rooms</u>
Comfort Inn . . . . .	84	6,798	58.6%
Travelodge . . . . .	13	2,118	18.3%
Quality Suites/Quality Inn . . . . .	8	1,096	9.4%
Quality Hotel . . . . .	6	1,075	9.3%
Other . . . . .	3	515	4.4%
<b>Total . . . . .</b>	<b><u>114</u></b>	<b><u>11,602</u></b>	<b><u>100%</u></b>

InnVest REIT will be the largest owner of Choice-branded hotels in Canada, owning approximately 38% of the Canadian Choice-branded hotels.

The hotels in the Portfolio have consistently outperformed the rest of the Canadian limited service hotel sector in terms of occupancy, ADR and RevPAR levels since 1997. The following table compares operating data of the Portfolio since 1997 to the limited service segment of the Canadian hotel market:

Year	Portfolio			Canadian Limited Service <sup>(1)</sup>			Portfolio Premium to Market		
	ADR	Occupancy	RevPAR	ADR	Occupancy	RevPAR	ADR	Occupancy	RevPAR
1997 . . . . .	\$62.93	70.0%	\$44.04	\$61.54	62.8%	\$38.65	2.3%	11.5%	13.9%
1998 . . . . .	\$68.93	70.7%	\$48.71	\$66.37	63.3%	\$41.98	3.9%	11.7%	16.0%
1999 . . . . .	\$77.08	67.1%	\$51.75	\$72.09	61.3%	\$44.17	6.9%	9.5%	17.2%
2000 . . . . .	\$82.14	65.0%	\$53.36	\$76.23	60.0%	\$45.74	7.8%	8.3%	16.7%
2001 . . . . .	\$82.51	64.4%	\$53.11	\$78.79	59.3%	\$46.72	4.7%	8.6%	13.7%

(1) From *PKF Trends in the Hotel Industry, National Market Report*. Includes the Portfolio.

### Westmont Group

The business of the Westmont Group was founded 28 years ago. The Westmont Group has grown to be the largest privately-held owner/operator of hotel assets in Canada and one of the largest private owner/operators in the world. The Westmont Group owns an interest in and operates, or oversees the operation of, over 350 hotels (with more than 40,000 guest rooms) throughout North America, Europe and Asia. These hotel properties include limited service, full service and luxury hotels, ranging in size from 50 to 600 guest rooms, and also extended stay “aparthotels”.

Properties managed by the Westmont Group are typically operated under franchise agreements with international brands. The Westmont Group has developed strong relationships with major international hotel brands and currently operates hotels under 20 different brands worldwide, including Choice, Travelodge, Hilton®, Delta®, Sheraton®, Holiday Inn®, Crowne Plaza®, Ramada®, Embassy Suites®, Wyndham® and Radisson® brands.

### Strategy of InnVest REIT

The primary objectives of InnVest REIT are: (i) to provide Unitholders with stable and growing cash distributions, payable monthly, principally from the ownership of limited service hotels; and (ii) to maximize long-term Unit value by implementing the REIT’s business strategy. InnVest REIT’s management will use the following operating and acquisition strategies to pursue the REIT’s business objectives.

#### Operating Strategy

InnVest REIT’s operating strategy is to continue to enhance the performance of the Portfolio. The Manager, part of the Westmont Group, will be responsible for the management of the hotels in the Portfolio. See “Management of InnVest REIT — Master Hotel Management Agreement”. Under the management of the Westmont Group, the hotels in the Portfolio have achieved significant improvement in ADR and RevPAR since 1999 (the year when the majority of the hotels were acquired by the Whitehall Funds and Westmont Holdings), posting cumulative ADR and RevPAR gains of 7.0% and 2.6%, respectively. Over that period, a number of strategic initiatives aimed at increasing the operating efficiency of the existing portfolio were implemented. The initiatives were focused on the following areas: revenue and yield management, product consistency, creation of “best practices” in marketing and sales, and ongoing training at every job level at each hotel.

InnVest REIT management expects the Manager to apply the following key operating and strategic principles in order to continue to operate the hotels in the Portfolio efficiently and to maximize internal growth:

- **Maximizing the performance of each individual hotel:** The Manager will seek to maximize the overall financial performance of the Portfolio by focusing on each individual hotel, utilizing management systems to provide timely information to the hotel general managers to support effective pricing decisions, reduce and control operating costs, and ensure consistency and quality of service. The Manager will measure actual results from operations against prior years’ results and planned budgets in an effort to create a

focused, profit-oriented approach to the operation of each hotel. The Manager intends to conduct detailed diagnostic reviews of hotels that are not achieving their targets, and will develop detailed action plans designed to improve the operating performance of each of these hotels.

- **Developing yield management and marketing strategies to maximize RevPAR:** The Manager will employ a combination of sophisticated yield management and marketing strategies, assisted by software of the Manager and the franchisors, in order to maximize RevPAR. Yield management strategies involve adjusting room rates based on occupancy levels and demand. Marketing strategies are designed for each hotel property, consisting of direct sales efforts, innovative measures based on market opportunities and participation in regional and national franchise advertising programs, with the goal of maximizing RevPAR.
- **Improving operating efficiencies and economies of scale:** The Manager will seek to maintain and pursue further operating efficiencies through strict cost controls to achieve internal cost savings. The Manager will take advantage of centralized purchasing, construction and renovation management, information technology and accounting functions.
- **Continually maintaining the quality of the Portfolio:** The Manager will seek to achieve a high level of guest satisfaction by maintaining the physical condition of its properties and service levels. InnVest REIT will retain a reserve for replacement of furniture, fixtures and equipment, and capital improvements, which will initially be set at 4% of gross revenues.

### **Acquisition Strategy**

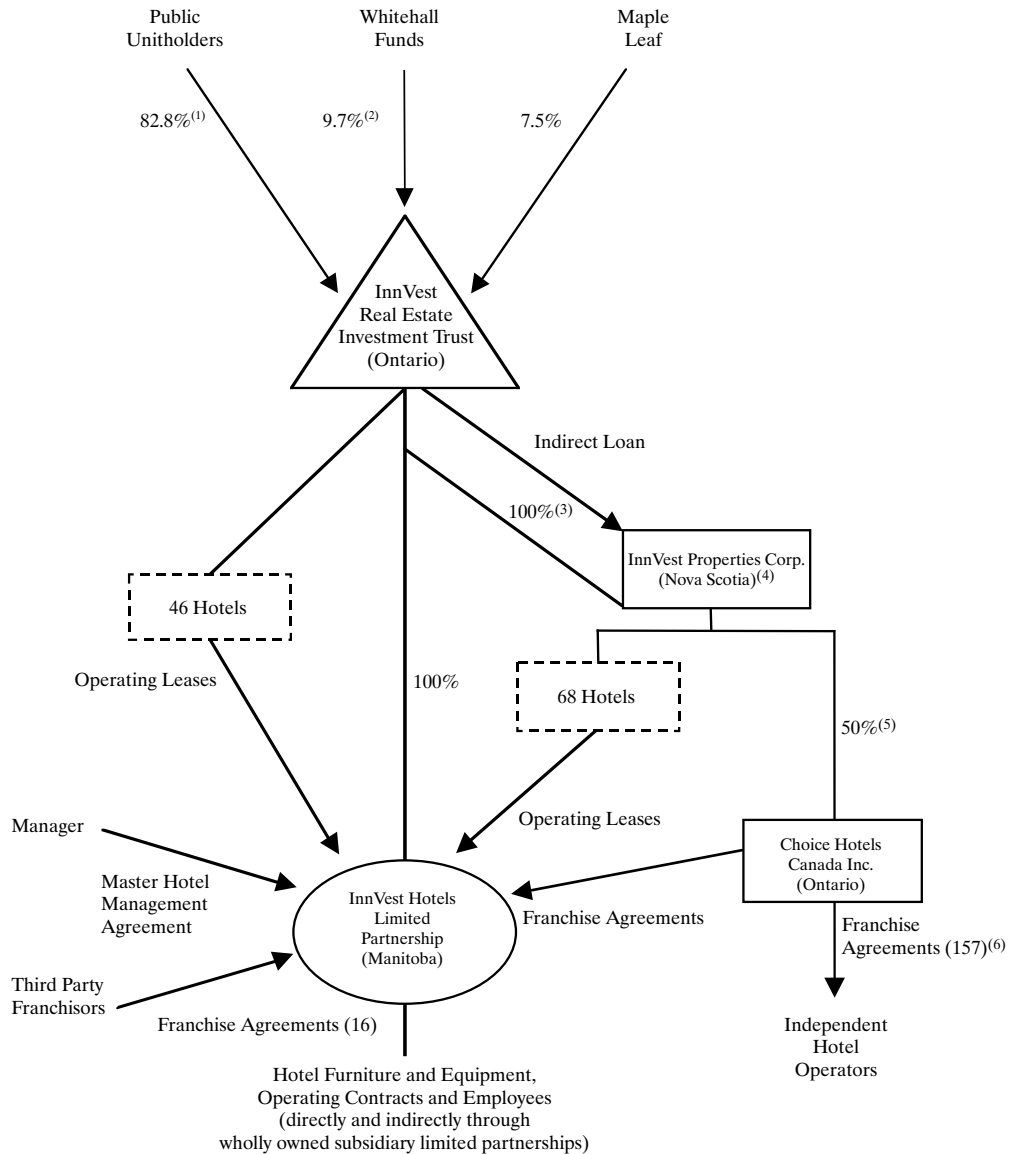
InnVest REIT will also seek to increase cash flow and enhance Unit value through selective acquisitions. The REIT intends to pursue the acquisition of hotels that compete in the limited service sector of the Canadian hotel industry. Specifically, InnVest REIT will consider investments in hotel properties that are expected to be accretive to its income.

The Manager, part of the Westmont Group, together with the Whitehall Funds, has access to an international network and relationships with leading participants in the hospitality industry which may assist InnVest REIT in identifying acquisition opportunities. Management of InnVest REIT believes that these deal-sourcing capabilities, combined with the deal-making capacities of the Senior Executives and the Manager, will be an important competitive advantage of InnVest REIT.

### **InnVest REIT Structure**

After giving effect to this transaction, InnVest REIT will own 46 Hotel Properties, either directly or through a subsidiary limited partnership, and InnVest Properties, a subsidiary of InnVest REIT, will own 68 Hotel Properties. The Operator, a subsidiary limited partnership of InnVest REIT, will, together with subsidiaries, own and operate the Hotel Businesses and lease the Hotel Properties (other than certain Hotel Businesses and Hotel Properties that will continue to be indirectly owned by InnVest Properties) from the REIT, InnVest Properties and their subsidiaries. Ninety-eight of the 114 hotels in the Portfolio will be operated under franchise agreements with Choice Canada, and the remaining 16 hotels will be operated under franchise agreements with other franchisors.

The following chart illustrates the primary structural and contractual relationships between InnVest REIT and its principal subsidiary entities and certain third parties upon Closing:



- (1) Includes 4,000,000 Vendor Units to be purchased by a Canadian chartered bank concurrently with Closing.
- (2) Excluding Units issuable pursuant to the terms of the Vendor Convertible Debentures, Units issuable pursuant to the exercise of the Over-Allotment Option and the effect of any Unit repurchases to be funded with the proceeds therefrom.
- (3) Held through wholly-owned direct and indirect subsidiaries of InnVest REIT.
- (4) Successor by amalgamation to W-Westmont. InnVest Properties will initially indirectly own the hotel furniture, equipment and operating contracts (including franchise agreements) relating to, and the Operator will not lease, approximately 17 Hotel Properties.
- (5) Held through a wholly-owned subsidiary of InnVest Properties.
- (6) Approximate. Includes hotels under development.

### Investment Guidelines and Operating Policies

The Declaration of Trust contains investment guidelines and operating policies which govern InnVest REIT. The investment guidelines and operating policies include criteria with respect to the types of real estate investments the REIT can make and limitations on indebtedness. See “Investment Guidelines and Operating Policies”.

### Financing Arrangements

Immediately following Closing, the REIT will have a Financial Leverage Ratio of approximately 40% and an overall Financial Leverage Ratio limit of 50% (60% including convertible debentures). This indebtedness will include a term loan facility (with both four- and six-year maturities and a commitment to refinance up to \$100 million of the Existing Mortgages upon maturity), a \$40 million acquisition facility and a \$25 million operating loan designed to allow InnVest REIT to manage short-term cash and operating needs. Management of InnVest REIT expects that its capital structure will provide InnVest REIT with an advantage relative to independent hotel operators and sole proprietors.

The following table sets out information about the indebtedness under the Term Credit Facility and the Existing Mortgages to be outstanding immediately following Closing:

<u>Maturity</u>	<u>Weighted Average Interest Rate</u>	<u>Principal Amount</u> (in thousands)
2002 .....	6.00%	\$ 3,330
2003 .....	7.57%	\$ 39,137
2004 .....	7.64%	\$ 22,353
2005 .....	7.88%	\$ 46,422
2006 .....	8.00%	\$ 98,823
2007 or later .....	8.60%	\$110,050
<b>Average/Total</b> .....	<b><u>8.13%</u></b>	<b><u>\$320,115</u></b>

### Eligibility for Investment

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to InnVest REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, provided that InnVest REIT qualifies as a mutual fund trust for the purposes of the Tax Act at the date of Closing, the Units, as at that date, will be qualified investments under the Tax Act and the Regulations for trusts governed by Deferred Income Plans and RESPs. Based on representations of InnVest REIT, in the opinion of such counsel, the Units will not, at the date of Closing, constitute foreign property for Deferred Income Plans and other persons subject to tax under Part XI of the Tax Act. See “Certain Canadian Federal Income Tax Considerations”.

### Risk Factors

There are certain risk factors inherent in an investment in the Offered Units and the activities of InnVest REIT, including: real estate investment risks; hotel industry risks; competition risks; risks related to investment concentration in the limited service hotel sector; risks related to the seasonality of the hotel business; acquisition strategy risks; risks related to availability of cash flow; the risk that cash distributions are not guaranteed and may fluctuate with the REIT’s performance; borrowing risks; risks related to the availability of additional capital; risks related to franchised hotels; risks related to reliance on franchisees by Choice Canada; the risk of potential labour disruptions; environmental risks; acquisition risks; risks related to uninsured and underinsured losses; risks related to the reliance on key personnel; risks related to the REIT’s dependence on and relationship with the Manager; risks related to termination rights under the Master Hotel Management Agreement; risks related to potential conflicts of interest; tax-related risks; risks related to deterrents to the acquisition of the REIT; risks related to the absence of a prior public market for the Units; risks related to the effect of interest rates on the price of Units; risks related to future sales of securities of the REIT by the Whitehall Funds and Maple Leaf; risks related to the nature of the redemption right; risks related to the nature of the Units; the possibility of Unitholder liability; the risk of dilution; and risks related to the financial forecast. See “Risk Factors”.

## INNVEST REAL ESTATE INVESTMENT TRUST

### Establishment of InnVest REIT

InnVest Real Estate Investment Trust is an unincorporated open-ended real estate investment trust created by the Declaration of Trust and governed by the laws of the Province of Ontario. See “Declaration of Trust and Description of Units”. The head office of InnVest REIT is located at 5090 Explorer Drive, 7th Floor, Mississauga, Ontario, L4W 4T9. Although InnVest REIT expects to qualify at Closing as a “mutual fund trust” as defined by the Tax Act, the REIT will not be a “mutual fund” as defined by applicable securities legislation.

At Closing, InnVest REIT will, directly and indirectly, acquire the Portfolio consisting of 114 Canadian hotel properties operated under international brands. One hundred of the hotels in the Portfolio are limited service hotels, where substantially all revenues are generated from guest room rentals. InnVest REIT will also indirectly own 50% of Choice Canada, the largest franchisor of hotels in Canada, as measured by hotels under franchise. See “Assets of InnVest REIT”.

InnVest REIT will have two primary objectives: (i) to provide Unitholders with stable and growing cash distributions, payable monthly, principally from the ownership of limited service hotels; and (ii) to maximize long-term Unit value by implementing the REIT’s business strategy.

### Whitehall Funds and the Westmont Group

In 1995, the Whitehall Funds and the Westmont Group created a joint venture to invest in hospitality assets in North America and Europe. These investments have included single-asset and portfolio acquisitions and the purchase of public and private operating businesses. Today, entities owned by the Whitehall Funds, and other affiliated funds, and the Westmont Group jointly hold hotel assets worldwide with an estimated market value of approximately U.S.\$3.6 billion and own and operate more than 350 hotels (with more than 40,000 guest rooms). In Canada, the Whitehall Funds and Westmont Holdings currently own a joint interest in 141 hotels (with over 17,100 guest rooms), including the Portfolio, located in every province of Canada. The Portfolio includes all of the Canadian limited service hotels currently jointly owned by the Whitehall Funds and Westmont Holdings.

The Whitehall Funds are three of a series of 10 separate investment funds sponsored and managed by Goldman, Sachs & Co. for the purpose of investing in real estate opportunities worldwide. Through the end of 2001, these investment funds have collectively invested approximately U.S.\$10.6 billion of equity capital to acquire real estate assets with an aggregate cost of over U.S.\$60.0 billion (including assumed indebtedness), including the properties in the Portfolio.

The business of the Westmont Group was founded 28 years ago. The Westmont Group has grown to be the largest privately-held owner/operator of hotel assets in Canada and one of the largest private owner/operators in the world. The Westmont Group manages the hotels acquired in conjunction with the Whitehall Funds and, in that capacity, provide the property management for the properties. The Westmont Group will use substantially all of its share of the proceeds, after tax and certain mortgage repayments, from the sale of the Portfolio to InnVest REIT to purchase Vendor Units. At this time, the Westmont Group intends to maintain or increase its investment in Units of InnVest REIT, although it is under no obligation to do so and will review its intentions from time to time and increase or decrease its investment in Units depending on various factors.

The REIT will have the benefit of the investment of both the Whitehall Funds and Maple Leaf in securities of the REIT and the ongoing involvement of one of the Westmont Group’s Canadian affiliates, the Manager. See “Westmont Group” and “Promoters and Principal Unitholders”. Both the Whitehall Funds and the Westmont Group will initially have nominees on the Board of Trustees of InnVest REIT, and the Manager’s senior management will form the core executive team of InnVest REIT.

## COMPETITIVE STRENGTHS

The Canadian lodging industry is highly competitive. Management of InnVest REIT believes that the REIT will have a number of distinguishing competitive strengths, including the following:

### Canada’s Largest Portfolio of Hotel Properties

After Closing, InnVest REIT will own the largest hotel portfolio in Canada, as measured both by number of hotels and by number of guest rooms, consisting of 114 hotels with 11,602 guest rooms. By way of comparison, the next largest hotel owner in Canada (as measured by number of guest rooms) owns 22 full service and luxury

hotels with approximately 10,000 guest rooms. Management expects to be able to leverage the REIT's size and scale to achieve operating efficiencies relative to its competitors.

### **International Brands**

All of the hotels in the Portfolio are flagged with international brands. A majority of the hotels in the Portfolio are flagged with Choice brands, which include Comfort Inn, Quality Inn, Quality Hotel and Quality Suites. The Choice brands enjoy a prominent position in the Canadian hospitality market, with approximately 255 franchised locations open or under development and more than 20,000 guest rooms throughout Canada (including the Choice-branded hotels in the Portfolio). InnVest REIT will be the largest owner of Choice-branded hotels in Canada, owning approximately 38% of the Canadian Choice-branded hotels, including 84 Comfort Inns and 14 Quality-branded hotels. Thirteen of the hotels in the Portfolio are flagged with the Travelodge brand, and the remaining three hotels carry the Best Western, Holiday Inn Express and Ramada Inn flags, respectively. Branding a hotel provides, among other things, the advantage of strong name recognition and access to reservation systems and national marketing programs. Less than 40% of hotel properties in Canada with over 30 guest rooms are branded.

### **Portfolio Diversity**

The Portfolio is geographically dispersed, with at least one hotel in each province of Canada. The majority of these hotels are located in urban and suburban areas in Ontario and Quebec, where the majority of Canada's population and business activity are located, with additional properties in population centres in the Atlantic and Western provinces. The Portfolio also has a diverse customer base, including business travellers, leisure travellers, group organizations and corporate clients. This diversity has been a factor in providing relative stability to the Portfolio's operating and financial performance by limiting its reliance on any one location or business sector.

### **Experience of the Manager**

The Westmont Group is the largest privately-held owner/operator of hotel assets in Canada and one of the largest private hotel owner/operators in the world. An affiliate of the Manager and its employees have provided management services for all of the hotels in the Portfolio. The Manager will serve as manager of the Portfolio under a 10-year Master Hotel Management Agreement and will be subject to the non-competition arrangements discussed under "Non-Competition Arrangements". The principals of the Westmont Group have a 28-year track record of acquiring and managing hotels in North America, Europe and Asia, and providing service to the hospitality sector. Certain senior management of the Manager, including its Chief Operating Officer and Chief Financial Officer, will form the core executive team of InnVest REIT.

### **Strategic Relationships**

The principals of the Westmont Group have had significant hotel investment experience with the Whitehall Funds and their affiliates in the acquisition of over U.S.\$3.6 billion in properties in North America and Europe. InnVest REIT, through its relationships with the Manager, the Westmont Group and the Whitehall Funds, will have access to relationships with hotel industry participants and financial institutions. These relationships may assist the REIT in implementing its business strategy and, given that less than 40% of the hotel properties in Canada with over 30 guest rooms are currently branded, may provide acquisition and reflagging opportunities.

### **Capital Structure**

Immediately following Closing, InnVest REIT will have a Financial Leverage Ratio of approximately 40% and an overall Financial Leverage Ratio limit of 50% (60% including convertible debentures). This indebtedness will include a term loan facility (with both four- and six-year maturities and a commitment to refinance up to \$100 million of Existing Mortgages upon maturity), a \$40 million acquisition facility and a \$25 million operating loan designed to allow InnVest REIT to manage short-term cash and operating needs. Management of InnVest REIT expects that its capital structure will provide InnVest REIT with an advantage relative to independent hotel operators and sole proprietors.

## CANADIAN HOTEL MARKET

*Industry data presented in this prospectus have been compiled from “Canada’s accommodation industry”, published by KPMG and the Hotel Association of Canada in April 2001 and from a hotel industry report — “PKF Trends in the Hotel Industry, January/February 2002 National Market Report” by PKF Consulting Inc., a management consultancy specializing in the hospitality and tourism industries and from “Travel Markets Outlook, Winter Update 2002” published by The Conference Board of Canada. None of InnVest REIT or the Promoters has independently verified any data contained in these reports.*

### **Hotel Industry**

Canada has more than 3,200 hotel properties (with 30 guest rooms or more), representing more than 300,000 guest rooms, ranging from small, independently owned and operated hotels and motels to large, full service branded hotels. Of these hotels, approximately 41% are considered limited service hotel properties which are properties that generally provide only limited food and beverage or other ancillary services, generate substantially all revenues from guest room rentals and tend to target more price-sensitive segments of the market. A typical limited service property features a low-rise building that does not offer recreation facilities, large meeting spaces or extensive food and beverage facilities. These hotels are typically located in close proximity to major thoroughfares and to restaurants or other service providers. Other market segments include various types of full-service hotels which can be categorized as mid-scale hotels, which generally target the traveller seeking some ancillary services such as a restaurant, recreation facilities or meeting space; first-class hotels, which target the traveller seeking a higher-end hotel with a full range of services available; and luxury hotels, which target the traveller demanding an upscale hotel or resort. Within these varied levels of service, hotel ownership is significantly fragmented, with the majority of Canadian hotels, resorts and motels being family-owned and operated. In 2001, KPMG estimated that less than 40% of hotel properties with 30 guest rooms or more in Canada are branded.

### **Industry Performance**

The Canadian accommodation industry generated revenues of \$10.6 billion in 2000 and is an industry that has generally enjoyed increasing levels of profitability over the past decade. Several external factors have helped improve overall profitability, including growth in the domestic economy, growth in tourism and the relative weakness of the Canadian dollar.

According to PKF data, between the years 1997 and 2001, the Canadian accommodation industry enjoyed an increase in its average daily rate (ADR) of 21.8%. Positive demand trends coupled with the introduction of new hotels and reinvestment in existing supply generally have allowed operators to increase room rates. On the strength of the increase in ADR, revenue per available room (RevPAR) for the same period increased from \$62.52 to \$70.68, representing a 3.1% compound annual growth rate (CAGR). This increase was consistent across all major markets, with the exception of Calgary and Vancouver, which have experienced slowing growth in recent years, principally as a result of new supply without an offsetting increase in demand.

In 2001, the Canadian accommodation industry weathered both an economic slowdown and the impact of the events of September 11, 2001, the primary impact of which was reflected in the under-performance of assets located in major business centres and in the Toronto airport market. Toronto experienced a 6.0% RevPAR decline in 2001 and Ontario experienced a 3.7% decline. However, certain markets such as Montreal and Quebec City were less adversely affected, with RevPAR up by 1.7% and 3.1%, respectively, for the year.

### **Limited Service Sector**

Hotel properties in the limited service segment have exhibited greater resistance to recessionary economic conditions than their full service counterparts. This is due to a number of factors, including relatively more affordable room rates, the fact that fixed costs represent a smaller proportion of the cost structure and a reduced reliance on “fly-to-destination” customers. According to PKF data, limited service hotels typically achieve gross operating profit margins that are higher than most first-class or luxury hotels by 10% to 15% of revenue, thereby enabling them to better withstand recessionary economic conditions.

According to PKF data, the limited service sector has outperformed the overall Canadian hotel market since 1997, with cumulative ADR and RevPAR growth in the sector of 28.0% and 20.9%, respectively, which

compares favourably to the cumulative ADR and RevPAR growth for the market as a whole of 21.8% and 13.1%, respectively.

Year	Canadian Limited Service <sup>(1)</sup>			Canadian Hotel Market <sup>(1)</sup>		
	ADR	Occupancy	RevPAR	ADR	Occupancy	RevPAR
1997	\$61.54	62.8%	\$38.65	\$ 93.59	66.8%	\$62.52
1998	\$66.37	63.3%	\$41.98	\$ 98.77	67.0%	\$66.18
1999	\$72.09	61.3%	\$44.17	\$105.76	65.9%	\$69.70
2000	\$76.23	60.0%	\$45.74	\$111.00	65.0%	\$72.15
2001	\$78.79	59.3%	\$46.72	\$114.00	62.0%	\$70.68

(1) From *PKF Trends in the Hotel Industry National Market Report*. Includes the Portfolio.

The Portfolio has consistently outperformed the rest of the Canadian limited service hotel sector in terms of occupancy, ADR and RevPAR levels since 1997. The following table compares operating data of the Portfolio since 1997 to the limited service segment of the Canadian hotel market:

Year	Portfolio			Canadian Limited Service <sup>(1)</sup>			Portfolio Premium to Market		
	ADR	Occupancy	RevPAR	ADR	Occupancy	RevPAR	ADR	Occupancy	RevPAR
1997	\$62.93	70.0%	\$44.04	\$61.54	62.8%	\$38.65	2.3%	11.5%	13.9%
1998	\$68.93	70.7%	\$48.71	\$66.37	63.3%	\$41.98	3.9%	11.7%	16.0%
1999	\$77.08	67.1%	\$51.75	\$72.09	61.3%	\$44.17	6.9%	9.5%	17.2%
2000	\$82.14	65.0%	\$53.36	\$76.23	60.0%	\$45.74	7.8%	8.3%	16.7%
2001	\$82.51	64.4%	\$53.11	\$78.79	59.3%	\$46.72	4.7%	8.6%	13.7%

(1) From *PKF Trends in the Hotel Industry, National Market Report*. Includes the Portfolio.

Additionally, the Portfolio performed better than the Canadian hotel market generally during the 1997 to 2001 period, posting compound annual growth rates in ADR of 7.0% and RevPAR of 4.8%, which compared favourably to the ADR and RevPAR growth for the Canadian hotel market of 5.1% and 3.1%, respectively.

### Market Outlook

Based on statistics published by The Conference Board of Canada, same day expenditures and overnight travel increased 8.8% in 2000 and 0.9% in 2001, and are projected to increase by 3.7% in 2002 and 6.1% in 2003. The Conference Board of Canada predicts that domestic leisure travel and U.S. travel to Canada will be stronger in 2002, with estimated growth of 2.3% and 4.3%, respectively, and that domestic corporate travel and international travel to Canada will recover in 2003, with estimated growth of 3.0% and 4.6%, respectively.

## ASSETS OF INNVEST REIT

### Hotel Portfolio Overview

Upon Closing, InnVest REIT will own Canada's largest hotel portfolio, as measured both by number of hotels and by number of guest rooms. Geographically, its principal guest room concentrations are in Ontario and Quebec (together representing 73% of guest rooms), where the majority of Canada's population and business activity is located, with additional properties in population centres in the Atlantic and Western provinces. Many of the hotel properties in the Portfolio are clustered in urban areas thereby providing economies of scale as well as providing the REIT with market intelligence not otherwise available to single asset owners in a specific urban area. The hotels are strategically located near major thoroughfares in urban and suburban areas, typically near demand generators such as business centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business travellers, leisure travellers, group organizations and corporate clients. The following table shows the market segmentation by major brands in the Portfolio.

### Room Revenue Breakdown by Market Segment<sup>(1)</sup>

	Comfort Inn	Travelodge	Quality Suites/ Quality Inn	Quality Hotel
Transient .....	12.9%	13.1%	8.8%	11.0%
Corporate .....	34.6%	17.0%	27.4%	20.0%
Locally negotiated .....	11.6%	10.8%	21.1%	13.1%
Government .....	5.4%	5.3%	7.1%	7.3%
Group .....	6.7%	16.3%	9.8%	22.5%
Leisure .....	17.1%	20.9%	18.1%	16.5%
Other .....	11.7%	16.6%	7.7%	9.6%

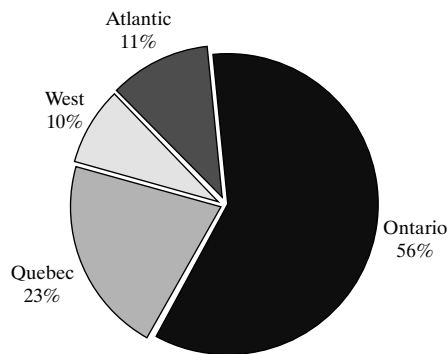
(1) For the year ended December 31, 2001.

The Portfolio's diversity has historically provided relative stability to its operating and financial performance by limiting reliance on any one location or business sector.

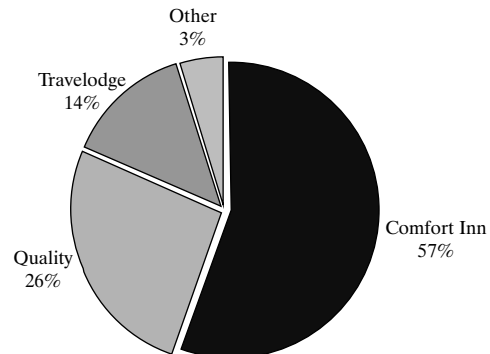
Three international brands, Comfort, Quality and Travelodge, each represent a significant portion of the Portfolio, as measured by number of guest rooms, and single Best Western, Ramada, and Holiday Inn Express hotels are also included. This diversity in branding offers important benefits and will provide InnVest REIT with the ability to analyze the relative reservation contributions from the various limited service brands. The brand diversity is also expected to provide the REIT with important data on consumer use of various distribution systems (global distribution system, travel portals and proprietary e-reservation systems), allowing it to optimize marketing efforts. Approximately 57% of the Portfolio's Property NOI (Pre-Reserve) for the year ended December 31, 2001 was generated by Comfort Inns, a well-established hotel brand in Canada.

The following graphs show the breakdown of the Portfolio's Property NOI (Pre-Reserve) for the year ended December 31, 2001, by region and by flag:

**2001 Property NOI (Pre-Reserve) by Location**



**2001 Property NOI (Pre-Reserve) by Flag**



### Hotel Portfolio Performance

The following table provides operating data for the Portfolio for the three years ended December 31, 2001:

	Year Ended December 31,		
	1999	2000	2001
ADR .....	\$ 77.08	\$ 82.14	\$ 82.51
Occupancy .....	67.1%	65.0%	64.4%
RevPAR .....	\$ 51.75	\$ 53.36	\$ 53.11
Hotel revenues <sup>(1)</sup> .....	\$234,801	\$242,803	\$241,999
Gross operating profit (GOP) margin <sup>(2)</sup> .....	49.9%	50.1%	48.3%
Property NOI (Pre-Reserve) <sup>(1)(3)</sup> .....	\$ 97,200	\$101,563	\$ 95,190

(1) In thousands.

(2) Gross operating profit margin means gross operating profit expressed as a percentage of revenue. Gross operating profit is equal to Property NOI (Pre-Reserve) plus property taxes, rent and insurance expenses.

(3) Property NOI (Pre-Reserve) is equal to operating income shown on the financial statements included in this prospectus.

The information set out above illustrates the resiliency of the Portfolio, as the ADR, occupancy, RevPAR and hotel revenues were relatively stable in 2001 despite the economic slowdown in 2001, which was compounded by the events of September 11, 2001.

The majority of the hotels in the Portfolio were indirectly acquired by the Whitehall Funds and Westmont Holdings in May 1999. Occupancy, ADR and RevPAR levels for the hotels in the Portfolio have each exceeded Canadian industry averages for limited service hotels reported by PKF for the years 1999 to 2001.

### Hotel Asset Description

Choice Canada brands, including Comfort and Quality, make up 77% of the Portfolio's guest rooms. Travelodge is the other significant brand, representing 18% of the Portfolio's guest rooms. Ramada, Holiday Inn Express and Best Western are also represented, with one location each. Set out below is a summary description of the assets under each flag. For a complete listing of Hotel Property locations, please see Appendix B.

<u>Flag</u>	<u>No. of Hotels</u>	<u>No. of Guest Rooms</u>	<u>% of Total Guest Rooms</u>
Comfort Inn . . . . .	84	6,798	58.6%
Travelodge . . . . .	13	2,118	18.3%
Quality Suites/Quality Inn . . . . .	8	1,096	9.4%
Quality Hotel . . . . .	6	1,075	9.3%
Other . . . . .	3	515	4.4%
<b>Total . . . . .</b>	<b>114</b>	<b>11,602</b>	<b>100%</b>

- **Comfort Inn** is Canada's leading limited service hotel brand as measured by number of locations, with 132 locations in Canada (including the Comfort Inns in the Portfolio) and more than 1,750 locations worldwide. InnVest REIT will be the largest owner of Comfort Inns in Canada, with approximately 60% of locations, providing substantial economies of scale.

Comfort Inns are typically two-storey, interior corridor buildings located in suburban areas with easy access to primary highways. The Comfort Inns in the Portfolio range in size from 59 to 146 guest rooms. Guest room amenities generally include cable/satellite television, in-room movies, work desks and data ports. Hotel amenities typically include a breakfast room and meeting space.

- The **Travelodges** in the Portfolio are located across Canada, principally in population centres in Ontario, Alberta and Saskatchewan.

The Travelodges range in size from 98 to 254 guest rooms. Eight of the Travelodges are multi-storey, mid-scale hotels located in urban areas. The remainder are two-storey, interior corridor buildings located in suburban areas with access to major highways. Guest room amenities typically include cable/satellite television, in-room movies, work desks, data ports, in-room coffee makers and hair dryers. Hotel amenities typically include an indoor pool, whirlpool, fitness room, limited meeting space and, in the case of most hotels, a restaurant and/or lounge which is typically leased to a third party operator.

- The **Quality Suites/Quality Inns** in the Portfolio are typically located in urban downtown or airport locations.

The Quality Suites/Quality Inns in the Portfolio range in size from 96 to 254 suites or guest rooms. Suites generally consist of two rooms of approximately 460 square feet in total area. Bedroom amenities typically include king-size beds, cable/satellite television, in-room movies, hair dryers, data ports and separate dressing areas with a mirrored vanity and closet. Living room amenities typically include a pull-out sofa bed, a large work table, in-room coffee makers and a second telephone and television. Hotel amenities generally include limited meeting space, a breakfast room and guest laundry services.

- The **Quality Hotels** in the Portfolio range in size from 140 to 212 guest rooms. Room amenities typically include cable/satellite television, in-room movies, hair dryers, data ports and in-room coffee makers. Hotel amenities typically include meeting space, a breakfast room and guest laundry services.

- The Portfolio also includes individual hotels operated under the **Best Western, Holiday Inn Express and Ramada Inn** flags.

The following table sets out certain operating results for the Portfolio on the basis of brand for the year ended December 31, 2001:

<u>Flag</u>	Year Ended December 31, 2001				
	<u>ADR</u>	<u>Occupancy</u>	<u>RevPAR</u>	<u>Property NOI (Pre-Reserve)</u> (in thousands)	<u>% of Property NOI (Pre-Reserve)</u>
Comfort Inn . . . . .	\$ 76.91	64.7%	\$ 49.72	\$54,319	57.1%
Travelodge . . . . .	\$ 74.68	61.2%	\$ 45.69	\$13,135	13.8%
Quality Hotel . . . . .	\$100.70	67.6%	\$ 68.09	\$12,598	13.2%
Quality Suites/Quality Inn . . . . .	\$109.47	69.7%	\$ 76.25	\$12,500	13.1%
Other . . . . .	\$ 83.96	55.8%	\$ 46.89	\$ 2,638	2.8%

### Hotel Employees

Approximately 2,800 full-time and part-time employees are currently employed by W-Westmont and by other affiliates of the Whitehall Funds and Westmont Holdings at the individual hotels in the Portfolio (2,812 as at December 31, 2001). After Closing, all of these employees will be employed by the Operator or subsidiaries of the Operator.

Approximately 880 employees at 36 of the hotels in the Portfolio are unionized, comprising approximately 30% of the total workforce. Of this group, approximately 62% are full-time employees and 38% are part-time employees. The collective agreements expire and are, therefore, open for renegotiation, at various times in 2002, 2003 and 2004. The bargaining rights of the unions at these hotels are site-specific to the employees at each particular hotel.

The applicable collective agreements and union representation rights established in the collective agreements will pass to the successor employer(s) (whether the Operator or subsidiaries of the Operator) in accordance with applicable provincial labour relations legislation.

### Choice Canada Franchising Business

In addition to the Portfolio, InnVest REIT will at Closing acquire a 50% indirect interest in Choice Canada. The remaining 50% of Choice Canada is owned by Choice International, one of the largest hotel franchise companies in the world with more than 5,000 hotels and resorts (open or under development) in 43 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. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems. Choice-branded hotels are, as a general rule, inspected at least twice a year to ensure quality and consistency of service.

Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. The Comfort and Quality brands are well known in the limited service market segment. Upon formation of the joint venture between a predecessor of W-Westmont and Choice International in June 1993, Choice Canada was granted a 99 year licence to franchise all Choice hotel brand names in Canada. With approximately 255 locations open or under development and more than 20,000 guest rooms, Choice Canada is the largest franchisor of hotels in Canada as measured by hotels under franchise.

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

Choice International continues to receive a fixed preferred profit amount from Choice Canada equal to the profit from its Canadian operations at the time of the establishment of the joint venture, indexed annually to the increase (if any) in the Consumer Price Index from 1993. After payment of this amount and all operating expenses of Choice Canada, the two joint venture participants share equally in the profits derived from the

franchise business in Canada. Choice Canada earns franchise revenues by charging monthly royalty fees to hotel owners based on a percentage of revenues of the licensed properties and by selling franchises.

With an increasing number of hotels being franchised under Choice flags, management of InnVest REIT believes that, as the Choice franchise system expands, its 50% ownership interest in Choice Canada will provide continuing growth opportunities for this income stream. During 2001, 27 additional hotels were branded under the Choice flags in Canada. Additionally, through its ownership interest in Choice Canada, W-Westmont has the right to participate in the maintenance and enforcement of operating standards across the entire Choice portfolio of hotels in Canada, in the approval of any new Choice-branded hotels in Canada and in the removal of any defaulting franchisees.

### **Competition**

The Canadian hotel industry is highly competitive. Each of the hotels in the Portfolio is located in an area that includes other hotels owned or operated by third parties. Properties owned by InnVest REIT will compete locally and regionally with existing hotels and with hotels that may be developed in the future. This includes direct competition with other limited service properties and indirect competition with hotels at other price points. InnVest REIT's competitors include independently-owned branded and non-branded hotels, as well as properties owned by publicly traded entities such as Canadian Hotel Income Properties Real Estate Investment Trust and Royal Host Real Estate Investment Trust.

Principal factors on which InnVest REIT will compete are brand recognition, location, price, hotel quality and consistency of services provided. Based on current performance above industry averages, InnVest REIT management believes the properties in the Portfolio compete favourably on these factors.

The Whitehall Funds and the Westmont Group will continue jointly to own full service hotels in Canada and, subject to the non-competition arrangements described under "Non-Competition Arrangements", may, in certain circumstances, acquire, own or develop additional hotels, including limited service hotels, that compete with properties owned by InnVest REIT. Entities that are part of the Westmont Group will continue to own interests in hotels in Canada, including limited service hotels, and also currently manage hotels (and may in the future manage additional hotels) in Canada, including limited service hotels, that are not included in the Portfolio. These managed properties may also compete with properties owned by InnVest REIT.

Competition from new market entrants is also possible, including from the development of new hotels in the same markets as assets of InnVest REIT, as well as the potential entry of new international hotel chains, brands or managers into the Canadian marketplace.

### **WESTMONT GROUP**

The business of the Westmont Group was founded 28 years ago. The Westmont Group has grown to be the largest privately-held owner/operator of hotel assets in Canada and one of the largest private owner/operators in the world. The Westmont Group owns an interest in and operates, or oversees the operation of, over 350 hotels (with more than 40,000 guest rooms) throughout North America, Europe and Asia. These hotel properties include limited service, full service and luxury hotels, ranging in size from 50 to 600 guest rooms, and also extended stay "aparthotels".

Properties managed by the Westmont Group are typically operated under franchise agreements with international brands. The Westmont Group has developed strong relationships with major international hotel brands and currently operates hotels under 20 different brands worldwide including Choice, Travelodge, Hilton, Delta, Sheraton, Holiday Inn, Crowne Plaza, Ramada, Embassy Suites, Wyndham and Radisson brands.

The Westmont Group has offices in Houston, London, Tokyo and Toronto. The Toronto area office is staffed with an experienced senior management team with resources dedicated to the following areas: operations, finance, asset management, acquisitions, internal audit, information technology, purchasing, sales and marketing, yield management, and construction and renovation management.

### **STRATEGY OF INNVEST REIT**

The primary objectives of InnVest REIT are: (i) to provide Unitholders with stable and growing cash distributions, payable monthly, principally from the ownership of limited service hotels; and (ii) to maximize long-term Unit value by implementing the REIT's business strategy. InnVest REIT's management will use the following operating and acquisition strategies to pursue the REIT's business objectives.

## Operating Strategy

InnVest REIT's operating strategy is to continue to enhance the performance of the Portfolio. The Manager, part of the Westmont Group, will be responsible for the management of each of the Hotel Businesses. See "Management of InnVest REIT — Master Hotel Management Agreement". Under the management of the Westmont Group, the hotels in the Portfolio have achieved significant improvement in ADR and RevPAR since 1999 (the year when the majority of the hotels were acquired by the Whitehall Funds and Westmont Holdings), posting cumulative ADR and RevPAR gains of 7.0% and 2.6%, respectively. Over that period, a number of strategic initiatives aimed at increasing the operating efficiency of the existing portfolio were implemented. The initiatives were focused on the following areas: revenue and yield management, product consistency, creation of "best practices" in marketing and sales, and ongoing training at every job level at each hotel.

InnVest REIT management expects the Manager to apply the following key operating and strategic principles in order to continue to operate the hotels in the Portfolio efficiently and to maximize internal growth:

- **Maximizing the performance of each individual hotel:** The Manager will seek to maximize the overall financial performance of the Portfolio by focusing on each individual hotel, utilizing management systems to provide timely information to the hotel general managers to support effective pricing decisions, reduce and control operating costs, and ensure consistency and quality of service. The Manager will measure actual results from operations against prior years' results and planned budgets in an effort to create a focused, profit-oriented approach to the operation of each hotel. The Manager intends to conduct detailed diagnostic reviews of hotels that are not achieving their targets, and will develop detailed action plans designed to improve the operating performance of each of these hotels.
- **Developing yield management and marketing strategies to maximize RevPAR:** The Manager will employ a combination of sophisticated yield management and marketing strategies, assisted by software of the Manager and the franchisors, in order to maximize RevPAR. Yield management strategies involve adjusting room rates based on occupancy levels and demand. Marketing strategies are designed for each specific hotel property, consisting of direct sales efforts, innovative measures based on market opportunities and participation in regional and national franchise advertising programs, with the goal of maximizing RevPAR.
- **Improving operating efficiencies and economies of scale:** The Manager will seek to maintain and pursue further operating efficiencies through strict cost controls to achieve internal cost savings. The Manager will take advantage of centralized purchasing, construction and renovation management, information technology and accounting functions.
- **Continually maintaining the quality of the Portfolio:** The Manager will seek to achieve a high level of guest satisfaction by maintaining the physical condition of its properties and service levels. InnVest REIT will retain a reserve for replacement of furniture, fixtures and equipment, and capital improvements, which will initially be set at 4% of gross revenues.

## Acquisition Strategy

InnVest REIT will also seek to increase cash flow and enhance Unit value through selective acquisitions. The REIT intends to pursue the acquisition of hotels that compete in the limited service sector of the Canadian hotel industry. Specifically, InnVest REIT will consider investments in hotel properties that are expected to be accretive to its income.

The Manager, as part of the Westmont Group, together with the Whitehall Funds, has access to an international network and relationships with leading participants in the hospitality industry which may assist InnVest REIT in identifying acquisition opportunities. Management of InnVest REIT believes that these deal-sourcing capabilities, combined with the deal-making capacities of the Senior Executives and the Manager, will be an important competitive advantage of InnVest REIT.

## ACQUISITION OF THE PORTFOLIO

Of the 114 hotels that will compose the Portfolio at Closing, 96 hotels are currently owned (directly or indirectly) by W-Westmont, 17 are indirectly owned by the Whitehall Funds and Westmont Holdings and one is indirectly owned by one of the Whitehall Funds.

Prior to Closing, certain assets currently owned by W-Westmont that will not be included in the Portfolio, including certain full service hotels and vacant lands, will be transferred by W-Westmont to new entities owned by the Whitehall Funds and Westmont Holdings.

At Closing, InnVest REIT will use the net proceeds of the offering to acquire direct and indirect ownership of the Portfolio and certain related assets and a 50% interest in Choice Canada in a multi-step transaction involving the acquisition by the REIT and its subsidiaries of 46 Hotel Properties and the holding entities that indirectly own all of the shares of InnVest Properties, the successor by amalgamation to W-Westmont (which will then own 68 Hotel Properties). The Operator and its subsidiary limited partnerships will acquire the Hotel Businesses and will lease the Hotel Properties (other than certain Hotel Businesses and Hotel Properties that will continue to be indirectly owned by InnVest Properties after Closing). The Operator will enter into the Master Hotel Management Agreement with the Manager providing for the overall management of the Hotel Properties.

As part of the Closing arrangements, approximately \$10 million will be reserved in the REIT (which may be placed on deposit with the Term Credit Facility lender) to provide for capital expenditures identified by InnVest REIT, and its lenders and franchisors. These capital expenditures are expected to include expenditures for repairs and maintenance, computer system upgrades and the replacement of furniture, fixtures and equipment. The reserve will be established by an effective reduction in the purchase price to be paid by the REIT for the acquisition of the Portfolio.

InnVest REIT will pay all transaction expenses to be incurred in connection with the acquisition of the Portfolio and related assets, including land transfer and other transfer taxes payable by InnVest REIT or its subsidiaries, which will be approximately \$6,700,000. InnVest REIT will use a portion of the proceeds of this offering to pay these expenses. See “Use of Proceeds”.

At Closing, the Whitehall Funds, Maple Leaf and a Canadian chartered bank will purchase from InnVest REIT 3,990,203, 3,078,707 and 4,000,000 Vendor Units, respectively, at a price of \$10 per Vendor Unit, and the Whitehall Funds will purchase from InnVest REIT the Vendor Convertible Debentures at par. See “Financing Arrangements — Vendor Convertible Debentures”. See “Promoters and Principal Unitholders”.

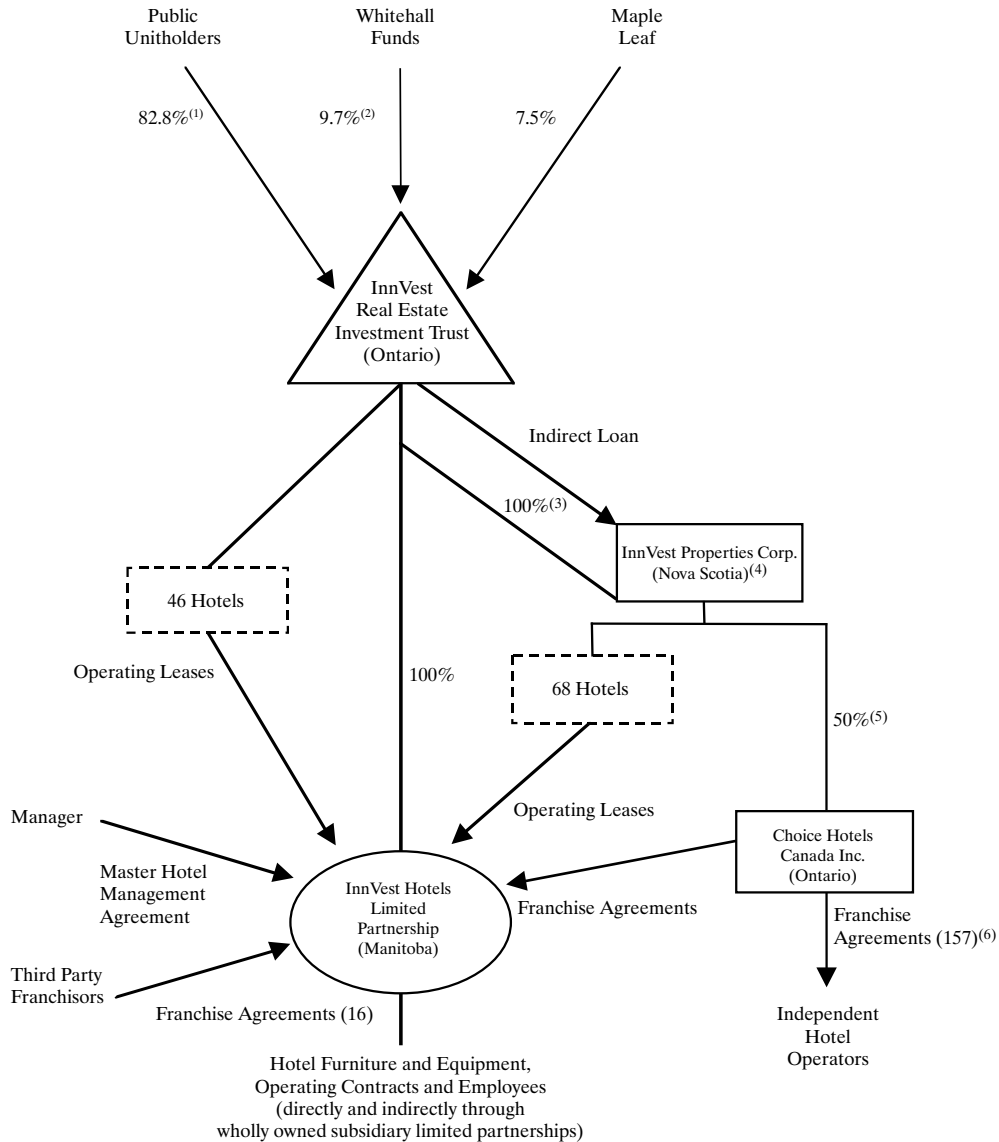
In connection with the issuance of the Vendor Units and the Vendor Convertible Debentures, InnVest REIT will enter into the Registration Rights Agreement. The Registration Rights Agreement will provide for demand and piggyback registration rights for sales in Canada of Vendor Units or Units issued pursuant to the terms of the Vendor Convertible Debentures and will be assignable in whole or in part to any lender having a security interest in such securities and any purchaser of a specified number of Vendor Units or Units issued pursuant to the terms of the Vendor Convertible Debentures.

Concurrently with Closing, InnVest REIT, together with the Operator and InnVest Properties, will enter into agreements for the New Credit Facilities. See “Use of Proceeds”, “Financing Arrangements — Existing Indebtedness and Prepayment” and “Financing Arrangements — New Credit Facilities”.

## INNVEST REIT STRUCTURE

InnVest REIT will directly and indirectly acquire the Portfolio at Closing. After giving effect to this transaction, InnVest REIT will own 46 Hotel Properties, either directly or through a subsidiary limited partnership, and InnVest Properties, an indirect subsidiary of InnVest REIT (and the successor by amalgamation to W-Westmont), will own 68 Hotel Properties. The Operator, a subsidiary limited partnership of InnVest REIT, will, together with subsidiaries, own and operate the Hotel Businesses and lease the Hotel Properties (other than certain Hotel Businesses and Hotel Properties that will continue to be indirectly owned by InnVest Properties after Closing) from the REIT, InnVest Properties and their subsidiaries. Ninety-eight of the 114 hotels in the Portfolio will be operated under franchise agreements with Choice Canada, and the remaining 16 hotels will be operated under franchise agreements with other franchisors.

The following chart illustrates the primary structural and contractual relationships between InnVest REIT and its principal subsidiary entities and certain third parties upon Closing:



- (1) Includes 4,000,000 Vendor Units to be purchased by a Canadian chartered bank concurrently with Closing.
- (2) Excluding Units issuable pursuant to the terms of the Vendor Convertible Debentures and Units issuable pursuant to the exercise of the Over-Allotment Option and the effect of any repurchases to be funded with the proceeds therefrom.
- (3) Held through wholly-owned direct and indirect subsidiaries of the REIT.
- (4) Successor by amalgamation to W-Westmont. InnVest Properties will initially indirectly own the hotel furniture, equipment and operating contracts (including franchise agreements) relating to, and the Operator will not lease, approximately 17 Hotel Properties.
- (5) Held through a wholly-owned subsidiary of InnVest Properties.
- (6) Approximate. Includes hotels under development.

## DUE DILIGENCE

In connection with InnVest REIT's acquisition of the Portfolio at Closing, an independent professional engineering firm performed a physical evaluation of each of the hotels, and an independent environmental consulting firm conducted Phase I environmental site assessments and, where appropriate, Phase II environmental site assessments in respect of the hotels.

The physical evaluation was conducted to: (i) describe the overall condition of each site and building with particular attention being paid to potential deficiencies; (ii) record observed variations from applicable building codes and regulatory standards; and (iii) outline the corrective actions, further inquiries and approximate expenditures required to remedy any material problems or non-conforming conditions identified which are above the capital budget threshold. The property inspections involved a visual review of all major buildings and site systems, including structural condition, roofs and mechanical and electrical systems.

The results of the engineering evaluations indicated that the Portfolio is generally in good condition and well maintained. Generally, only local repairs are expected to be required during the next five years. Certain isolated concerns identified will require some hotels to have more extensive repairs than is the historical norm for the Portfolio. Management strategies are in place to deal with these concerns. Management of the REIT believes that capital expenditures required within the next three to four years for conditions identified in the reports fall within the range generally expected for limited service hotels of comparable age and size and will be funded out of InnVest REIT's reserves for replacement of furniture, fixtures and equipment and capital improvements.

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

## VALUATION

W-Westmont retained the Valuator to provide an independent estimate of the fair market value of the Portfolio, the interest in Choice Canada and certain related assets. Fair market value is defined as "the highest price available in an open and unrestricted market between informed, prudent parties, acting at arm's length and under no compulsion to act, expressed in terms of money or money's worth."

Caution should be exercised in the use of valuation results. The Valuation is an estimate of current market values; it is not a precise measure of value, but is based on economic, political, stock market and general business conditions prevailing in Canada as at March 31, 2002. Further, the Valuation is based on various assumptions of future expectations and, while the Valuator's projection of income is considered to be reasonable at the current time, some of the assumptions may not materialize or may differ from actual experience in the future. A publicly-traded real estate investment trust will not necessarily trade at values determined by reference to the underlying value of its assets. Accordingly, the Units may trade at a discount or a premium to the values implied by the Valuation.

In the Valuation, the Valuator estimated that the fair market value of the Portfolio and the interest in Choice Canada and the related assets as at March 31, 2002 was in the range of \$771 million to \$845 million. The fair market value was determined on a portfolio basis (rather than on an individual property-by-property basis) using the income capitalization approach to value. For the most part, the Valuator applied a capitalization rate in the order of 10.5% to 11.5% to adjusted projected 2002 net operating income (operating income less the planned reserve for replacement of furniture, fixtures and equipment and capital expenditures) before debt service to arrive at the estimated fair market value. In the Valuator's view, the highest price would be achieved if the assets were sold, directly or indirectly, into the Canadian real estate investment trust market. Accordingly, the Valuator's analysis was heavily weighted towards pricing factors inherent in the Canadian real estate investment trust market.

In determining the fair market value of the Portfolio, the interest in Choice Canada and the related assets, the Valuator relied on various operating and financial data provided by the vendors of the assets, including projected net operating income. The Valuator believes that the Valuation gave appropriate consideration to projected net operating income for each hotel in the Portfolio in terms of market room rates, growth rates, occupancy rates, operating expenses, management fees, ground lease obligations (where applicable) and provisions for required capital improvements. Specifically, for each hotel within the Portfolio, the Valuator discussed with management of the REIT, the hotel's history, current status and future prospects/operating results; reviewed building inspection reports; reviewed management's procedures for estimating property taxes; interviewed local economic development and/or planning department representatives and canvassed limited service hotel chains with a view to determining the location, size and brand of hotels under construction, or being contemplated within the markets serviced by the individual hotels in the Portfolio. In addition, the Valuator toured 43 hotels within the Portfolio located in six provinces that collectively represented 60% of net operating income for the Portfolio in 2001. In conducting its Valuation, the Valuator assumed that title to each of the Hotel Properties is good and marketable and that each of the Hotel Properties is free from environmental contamination.

## **FINANCING ARRANGEMENTS**

### **General**

Management of InnVest REIT intends to implement a financing strategy that: (i) incorporates long-term secured and, possibly, unsecured debt; (ii) manages exposure to fluctuation of interest rates; and (iii) maintains maximum flexibility to appropriately manage InnVest REIT's short-term cash needs and the funding of future acquisitions. InnVest REIT's operating policies contained in the Declaration of Trust will limit the Financial Leverage Ratio to 50% (60% including convertible debentures). InnVest REIT's current intention is to limit the proportion of indebtedness relative to the Gross Book Value to be incurred with floating interest rates or remaining maturities of less than one year to not more than 20%. Giving effect to the completion of this offering, and the transactions described under "Acquisition of the Portfolio" and below, the Financial Leverage Ratio of InnVest REIT will be approximately 40% (excluding the Vendor Convertible Debentures).

### **New Credit Facilities**

#### *Term Credit Facility*

A Term Credit Facility with a Canadian financial institution has been arranged for InnVest REIT in the maximum principal amount of \$375 million. Of this maximum principal amount, up to approximately \$211 million will be drawn on Closing to refinance existing indebtedness. Subsequent advances of up to approximately \$164 million will be available as follows:

- up to \$24 million to finance 50% of the cost of renovations and capital expenditures with respect to the Hotel Properties or 50% of the purchase price for the freehold interest under any ground lease or third party minority co-ownership interest relating to any of the Hotel Properties;
- up to \$100 million to refinance Existing Mortgages upon maturity (of which \$5,700,000 will be drawn at Closing); and
- up to \$40 million on a revolving basis to finance the costs for acquisition of additional hotel properties approved by the lender. The lender may require repayment of, and the borrowers are entitled to repay, up to 100% of any acquisition advance out of the proceeds from the sale of any equity securities sold within six months after the date of the acquisition advance.

The borrowers under this facility will be InnVest REIT, InnVest Properties and the Operator. The facility will be secured by first and second charges on 71 of the initial 114 Hotel Properties and the related Hotel Businesses together with a pledge of interests in entities holding title to 30 additional Hotel Properties and the related Hotel Businesses, including a pledge of shares of InnVest Properties. Amounts drawn under the facility will be divided into two tranches having terms of four and six years respectively from the date of the initial advance under the facility. The initial advances under the four year and six year tranches will be approximately \$100 million and approximately \$116.7 million, respectively, and will bear interest at fixed rates. Subsequent

advances will bear interest at floating rates. If subsequent advances in excess of \$10 million are outstanding, the borrowers may elect to fix the rate of interest on such advances. In addition to monthly interest payments, the borrowers will be required to make monthly payments of principal based on a 25-year amortization of amounts outstanding from time to time under the Existing Mortgages and the Term Credit Facility.

The Term Credit Facility will include a covenant that the lender shall have the right to approve any change of hotel manager for the relevant Hotel Properties, such approval not to be unreasonably withheld. The commitment letter provides that the Term Credit Facility will include a covenant that the REIT will complete certain capital expenditures within 24 months of the initial advance under the Term Credit Facility. The commitment letter contemplates that the REIT will be required to deposit with the lender prior to the initial advance under the Term Credit Facility approximately \$10 million to fund the work required to be completed. See “Acquisition of the Portfolio”.

### *Operating Facility*

An Operating Facility with a Canadian chartered bank has been arranged for InnVest REIT. InnVest REIT will be the borrower under this facility, which will be guaranteed by InnVest Properties and the Operator and secured against nine of the hotels in the Portfolio.

The Operating Facility will provide financing for the operations of the Operator, including investments in furniture, fixtures and equipment and building improvements which are the responsibility of the Operator. This revolving term facility will be available for drawdown on or after Closing in an aggregate principal amount not to exceed \$25 million and drawings will bear interest at a floating rate. The Operating Facility will have an availability period of 364 days, subject to optional rolling 364-day extensions if agreed to by the lender.

### **Existing Indebtedness and Prepayment**

Forty-eight Hotel Properties currently serve as security for first mortgage loan facilities from a total of nine lenders. Loans relating to 21 of the Hotel Properties currently owned by W-Westmont will be repaid at Closing with funding from the Term Credit Facility. In addition, financing secured by the 18 Hotel Properties to be acquired by InnVest REIT, which are not currently owned by W-Westmont, will be repaid on Closing with funding from the Term Credit Facility.

The following table sets out information about the indebtedness under the Term Credit Facility and other first mortgage indebtedness to be outstanding immediately following Closing:

<u>Maturity</u>	<u>Weighted Average Interest Rate</u>	<u>Principal Amount</u> (in thousands)
2002.....	6.00%	\$ 3,330
2003.....	7.57%	\$ 39,137
2004.....	7.64%	\$ 22,353
2005.....	7.88%	\$ 46,422
2006.....	8.00%	\$ 98,823
2007 or later.....	8.60%	\$110,050
<b>Average/Total</b> .....	<b><u>8.13%</u></b>	<b><u>\$320,115</u></b>

### **Vendor Convertible Debentures**

At Closing, the Whitehall Funds will purchase from InnVest REIT the Vendor Convertible Debentures at par. The Vendor Convertible Debentures will be issued pursuant to the Trust Indenture. The following summary of certain provisions of the Trust Indenture is not complete. For a complete description, prospective investors should refer to the Trust Indenture.

The Vendor Convertible Debentures will be subordinated unsecured general obligations of InnVest REIT ranking equally and rateably with all other subordinated indebtedness of InnVest REIT from time to time outstanding except as otherwise prescribed by law.

The Vendor Convertible Debentures will bear interest at a rate of 9.75% per annum, payable semi-annually in arrears on June 30<sup>th</sup> and December 31<sup>st</sup> in each year, commencing on December 31, 2002. The December 31, 2002 interest payment will represent accrued interest for the period from Closing to December 31, 2002. If any interest payment date is not a business day, the interest will be paid on the next business day. The Vendor Convertible Debentures will mature on June 30, 2007.

The Vendor Convertible Debentures will be convertible into freely tradeable Units at a conversion rate of 93.0233 Units per \$1,000 principal amount of Vendor Convertible Debentures (representing a conversion price of \$10.75 per Unit), subject to anti-dilution adjustments. If all conversion rights attaching to the Vendor Convertible Debentures were exercised, InnVest REIT would be required to issue 6,976,744 additional Units, subject to anti-dilution adjustments. Upon conversion of Vendor Convertible Debentures, except as provided below, the holder will not receive any cash payment representing accrued but unpaid interest on the Vendor Convertible Debentures. Notwithstanding the foregoing, accrued but unpaid interest will be payable upon any conversion of the Vendor Convertible Debentures at the option of the holder made after the delivery by the REIT of a redemption notice in respect of the Vendor Convertible Debentures to be converted. Holders may exercise the conversion rights attaching to Vendor Convertible Debentures at any time, including after a redemption notice is received in respect of the Vendor Convertible Debentures to be converted but prior to the redemption of the Vendor Convertible Debentures.

The Vendor Convertible Debentures will not be redeemable prior to June 30, 2005. On and after July 1, 2005, the Vendor Convertible Debentures will be redeemable at the option of InnVest REIT, in whole or in part from time to time, on at least 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 five trading days prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. Any Vendor Convertible Debentures redeemed by InnVest REIT will be cancelled and will not be reissued.

Provided that there is not a then current event of default, InnVest REIT will have the option to satisfy its obligation to pay all or a portion of the principal amount of the Vendor Convertible Debentures due at maturity or upon redemption, in whole or in part, upon at least 30 days' and not more than 60 days' prior notice, by issuing and delivering that number of freely tradeable Units equal to the aggregate principal amount of the Vendor Convertible Debentures maturing or to be redeemed divided by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending five trading days prior to the date of redemption or maturity, as applicable.

Provided that there is not a then current event of default, InnVest REIT may elect to satisfy its obligation to pay interest on the Vendor Convertible Debentures by issuing and delivering freely tradeable Units to the trustee under the Trust Indenture. In that case, holders of Vendor Convertible Debentures will be entitled to receive a cash payment from the proceeds from the sale of Units by the trustee under the Trust Indenture adequate to satisfy the REIT's interest payment obligations. The Trust Indenture will provide that, if InnVest REIT makes this election, the trustee under the Trust Indenture will (i) accept delivery of the Units from InnVest REIT, (ii) accept bids with respect to, and consummate sales of, the Units, each as InnVest REIT will direct in its sole discretion, (iii) invest the proceeds in certain authorized investments which mature prior to the applicable interest payment date, (iv) deliver the proceeds to the holders of Vendor Convertible Debentures to satisfy the REIT's interest payment obligations, and (v) perform any other action necessarily incidental to effect the above transactions. The ability of InnVest REIT to make this interest payment election is subject to obtaining all necessary regulatory approvals for the delivery of the freely tradeable Units to the trustee under the Trust Indenture.

Upon the occurrence of a change of control involving the acquisition of voting control or direction over 66 $\frac{2}{3}$ % or more of the outstanding Units by any person or group of persons acting jointly or in concert, holders of Vendor Convertible Debentures have the right to require the REIT to repurchase their Vendor Convertible Debentures, in whole or in part, at a price equal to 101% of the aggregate principal amount of such Vendor Convertible Debentures, plus accrued and unpaid interest.

The Trust Indenture will provide for events of default including: (i) any failure to pay principal when due or failure to pay interest when due (subject to a 15-day cure period); (ii) any failure to comply with any of the

REIT's agreements in the Vendor Convertible Debentures or the Trust Indenture (subject to a 60-day cure period); (iii) any failure to satisfy the REIT's obligations upon the exercise of conversion rights (subject to a five-day cure period); (iv) a default by the REIT in respect of any indebtedness of the REIT in excess of a specified amount; and (v) if InnVest REIT becomes insolvent or bankrupt, or consents to the institution of insolvency or bankruptcy. The Trust Indenture will not contain any financial covenants or restrictions on distributions to Unitholders, the incurrence or assumption of additional indebtedness by the REIT or the issuance or repurchase of securities by the REIT.

The Trust Indenture will permit the REIT to purchase Vendor Convertible Debentures for cancellation in the market or by tender or private contract at any time, subject to applicable regulatory requirements.

The Trust Indenture and the rights of holders of Vendor Convertible Debentures may, in certain circumstances, be modified, including by way of a resolution passed by the affirmative vote of the holders of not less than 66⅔% of the aggregate principal amount of Vendor Convertible Debentures represented and voted at a meeting duly called and held in accordance with the procedures set out in the Trust Indenture or by way of a resolution contained in one or more instruments in writing signed by holders of not less than 66⅔% of the aggregate principal amount of the then outstanding Vendor Convertible Debentures.

This prospectus also qualifies the distribution of the Vendor Convertible Debentures to the Whitehall Funds. The Vendor Convertible Debentures are not being underwritten by the Underwriters, and no underwriting fee will be paid in respect of the Vendor Convertible Debentures.

#### PRO FORMA CONSOLIDATED CAPITALIZATION OF INNVEST REIT

The following table sets forth the *pro forma* capitalization of InnVest REIT as at March 31, 2002 after giving effect to: (i) the completion of this offering and the use of proceeds therefrom as described under "Use of Proceeds"; (ii) the issuance of the Vendor Units, the issuance of the Vendor Convertible Debentures as described under "Financing Arrangements — Vendor Convertible Debentures" and the use of the resulting proceeds as described under "Use of Proceeds"; and (iii) the debt prepayment and new financing arrangements as described under "Financing Arrangements", but without giving effect to the exercise of the Over-Allotment Option. The table should be read in conjunction with the *pro forma* consolidated financial statements and notes thereto contained in this prospectus.

	<u>As at March 31, 2002</u> <i>(Pro Forma)</i> (in thousands)
<b>Debt:</b>	
Long-term debt . . . . .	\$322,882
<b>Unitholders' Equity:</b>	
Units <sup>(1)</sup> . . . . .	387,744
(Authorized — unlimited) . . . . .	(41,068,910 Units)
Vendor Convertible Debentures <sup>(2)</sup> . . . . .	75,000
<b>Total Capitalization</b> . . . . .	<u>\$785,626</u>

(1) Does not include Units issuable pursuant to the terms of the Vendor Convertible Debentures.

(2) Under GAAP, the Vendor Convertible Debentures are included in unitholders' equity and distributions on the Vendor Convertible Debentures are charged to equity.

## PRO FORMA EARNINGS COVERAGE

The following *pro forma* consolidated earnings coverage ratio has been calculated for the 12 months ended March 31, 2002 and for the year ended December 31, 2001 and gives effect to the issuance of the Vendor Convertible Debentures and the completion of the other transactions described under “Financing Arrangements”.

	12 Months Ended March 31, 2002	Year Ended December 31, 2001
<i>Pro forma</i> interest requirements <sup>(1)</sup> . . . . .	\$24.5 million	\$24.5 million
Earnings before interest expense and income tax . . . . .	\$61.0 million	\$62.2 million
<i>Pro forma</i> earnings coverage <sup>(1)(2)</sup> . . . . .	2.49 times	2.54 times

(1) Under GAAP, the Vendor Convertible Debentures are included in Unitholders’ equity, and distributions on the Vendor Convertible Debentures are charged to equity. If the Vendor Convertible Debentures were recorded as debt, the carrying charges for the Vendor Convertible Debentures would be included in the calculation of the REIT’s *pro forma* interest obligations, and the REIT’s *pro forma* earnings coverage for the 12 months ended March 31, 2002 and for the year ended December 31, 2001 would have been 1.92 and 1.96, respectively.

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

## FINANCIAL FORECAST

The following statements of Forecast Consolidated Net Income were prepared by management of Westmont Hospitality Management Limited on behalf of the REIT, using assumptions with an effective date of July 18, 2002, and were approved by the Trustees of the REIT. Pursuant to applicable securities policies, the REIT is required to update the forecast during the forecast period by identifying any material changes from the forecast resulting from events that have occurred since it was issued and by comparing such forecast with annual audited actual results and interim unaudited actual results for the periods covered. The results of this comparison will accompany the annual or interim financial statements of the REIT for the relevant periods.

The forecast has been prepared in accordance with GAAP relating to measurement, presentation and disclosure of financial forecasts established by The Canadian Institute of Chartered Accountants. The forecast has been prepared using assumptions that reflect management's intended course of action for the periods covered, given management's judgment as to the most probable set of economic conditions. The forecast has been prepared after giving effect to this offering and the other transactions contemplated in this prospectus to be completed on or before Closing.

**Some of the assumptions used in the preparation of the financial forecast, although considered reasonable at the time of preparation, inevitably will not materialize as forecasted and unanticipated events and circumstances will occur subsequent to the date of the forecast. Accordingly, the actual results achieved for the forecast period will vary from the forecasted results and the variations may be material. There is no representation that the forecast will be realized in whole or in part. Important factors that could cause actual results to vary materially from the forecast include those disclosed under "Risk Factors".**

The forecast should be read in conjunction with the *pro forma* consolidated financial statements and the notes thereto and the combined financial statements of the Portfolio and the notes thereto contained in this prospectus.

Distributable Income is not a GAAP measure and there is no standardized measure of Distributable Income. Distributable Income, as presented, may not be comparable to similar measures presented by other real estate investment trusts. Distributable Income is presented in order to assist readers of the financial forecast of InnVest REIT in assessing possible future cash distributions.

Distributable Income is a measure of cash flow and operating profitability and, by definition, excludes certain expenses (specifically depreciation and amortization, amortization of fair value debt adjustments and future income tax expense) and 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. Certain of these expenses are viewed by management as either non-cash (in the case of both depreciation and amortization) or non-operating (in the case of future income taxes). The underlying reasons for exclusion of each item are as follows:

*Amortization* — as a non-cash item, amortization has no impact on distributable income;

*Depreciation* — as a non-cash item, depreciation has no impact on distributable income; and

*Future Income Taxes* — future income taxes are a function of accounting for timing differences, tax laws and tax rates and are affected by matters which are separate from the daily operations of InnVest REIT; for example, the creation of the structure of InnVest REIT will impact future income tax expense.

## AUDITORS' REPORT

To the Trustees of  
InnVest Real Estate Investment Trust

The accompanying financial forecast of InnVest Real Estate Investment Trust consisting of the statements of forecast consolidated net income for each of the three-month periods ending September 30 and December 31, 2002, for the six-month period ending December 31, 2002, for each of the three-month periods ending March 31 and June 30, 2003, for the six-month period ending June 30, 2003 and for the twelve-month period ending June 30, 2003 has been prepared by management of Westmont Hospitality Management Limited on behalf of InnVest Real Estate Investment Trust using assumptions with an effective date of July 18, 2002. We have examined the support provided by management for the assumptions, and the preparation and presentation of this forecast. Our examination was made in accordance with the applicable Assurance and Related Services Guideline issued by The Canadian Institute of Chartered Accountants. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

- as at the date of this report, the assumptions developed by management are suitably supported and consistent with the plans of InnVest Real Estate Investment Trust, and provide a reasonable basis for the forecast;
- this forecast reflects such assumptions; and
- the financial forecast complies with the presentation and disclosure standards for forecasts established by The Canadian Institute of Chartered Accountants.

Since this forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether this forecast will be achieved.

Toronto, Canada  
July 18, 2002

(Signed) Deloitte & Touche LLP  
Chartered Accountants

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**STATEMENTS OF FORECAST CONSOLIDATED NET INCOME**  
**For the six months ending December 31, 2002, the six months ending June 30, 2003**  
**and for the twelve months ending June 30, 2003**  
**(in thousands of dollars, except per unit amounts)**

	Three months ending		Six months ending	Three months ending		Six months ending	Twelve months ending
	September 30, 2002	December 31, 2002	December 31, 2002	March 31, 2003	June 30, 2003	June 30, 2003	June 30, 2003
Hotel revenues . . . . .	\$82,810	\$54,231	\$137,041	\$48,647	\$64,746	\$113,393	\$250,434
Hotel expenses							
Operating expenses . . . . .	33,641	27,999	61,640	27,436	30,262	57,698	119,338
Property taxes, rent and insurance	5,986	5,965	11,951	6,061	6,081	12,142	24,093
Management fees . . . . .	2,795	1,830	4,625	1,642	2,185	3,827	8,452
	<u>42,422</u>	<u>35,794</u>	<u>78,216</u>	<u>35,139</u>	<u>38,528</u>	<u>73,667</u>	<u>151,883</u>
Operating income . . . . .	<u>40,388</u>	<u>18,437</u>	<u>58,825</u>	<u>13,508</u>	<u>26,218</u>	<u>39,726</u>	<u>98,551</u>
Other (income) and expenses							
Interest on mortgages and other debt . . . . .	6,159	6,138	12,297	6,118	6,095	12,213	24,510
Corporate and administrative . . .	750	750	1,500	750	750	1,500	3,000
Capital tax . . . . .	495	495	990	495	495	990	1,980
Franchise business income, net . . .	(909)	(490)	(1,399)	(160)	(410)	(570)	(1,969)
Other income . . . . .	(84)	(101)	(185)	(48)	(38)	(86)	(271)
Depreciation and amortization . . .	8,125	8,125	16,250	8,125	8,125	16,250	32,500
	<u>14,536</u>	<u>14,917</u>	<u>29,453</u>	<u>15,280</u>	<u>15,017</u>	<u>30,297</u>	<u>59,750</u>
Income (loss) before income tax expense . . . . .	<u>25,852</u>	<u>3,520</u>	<u>29,372</u>	<u>(1,772)</u>	<u>11,201</u>	<u>9,429</u>	<u>38,801</u>
Income tax expense (recovery)							
Current . . . . .	317	317	634	317	317	634	1,268
Future . . . . .	(435)	(435)	(870)	(542)	(542)	(1,084)	(1,954)
	<u>(118)</u>	<u>(118)</u>	<u>(236)</u>	<u>(225)</u>	<u>(225)</u>	<u>(450)</u>	<u>(686)</u>
Net income (loss) . . . . .	<u>\$25,970</u>	<u>\$ 3,638</u>	<u>\$ 29,608</u>	<u>\$(1,547)</u>	<u>\$11,426</u>	<u>\$ 9,879</u>	<u>\$ 39,487</u>
Net income (loss) per unit							
— basic . . . . .	<u>\$ 0.59</u>	<u>\$ 0.04</u>	<u>\$ 0.63</u>	<u>\$ (0.08)</u>	<u>\$ 0.23</u>	<u>\$ 0.15</u>	<u>\$ 0.78</u>
— diluted . . . . .	<u>\$ 0.53</u>	<u>\$ 0.04</u>	<u>\$ 0.60</u>	<u>\$ (0.08)</u>	<u>\$ 0.23</u>	<u>\$ 0.15</u>	<u>\$ 0.78</u>

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE STATEMENTS OF FORECAST CONSOLIDATED NET INCOME**  
**For the six months ending December 31, 2002, the six months ending June 30, 2003**  
**and for the twelve months ending June 30, 2003**  
**(all dollar amounts, except per unit amounts, are in thousands)**

**1. PURPOSE OF THE FORECAST**

This forecast has been prepared by management of Westmont Hospitality Management Limited (“WHML”) on behalf of InnVest Real Estate Investment Trust (the “REIT”) for use by prospective investors in their evaluation of potential investments in the REIT and may not be appropriate for any other purpose.

**2. BASIS OF PRESENTATION OF FORECAST**

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT was established pursuant to a Declaration of Trust dated January 1, 2002 (as amended from time to time, the “Declaration of Trust”) when one unit was issued for ten dollars.

The financial forecast consists of the Statements of Forecast Consolidated Net Income of the REIT for each of the three-month periods ending September 30 and December 31, 2002, for the six-month period ending December 31, 2002, for each of the three-month periods ending March 31 and June 30, 2003, for the six-month period ending June 30, 2003 and for the twelve-month period ending June 30, 2003. The consolidated forecast has been prepared by management of WHML on behalf of the REIT using assumptions with an effective date of July 18, 2002, and reflects the assumptions described below.

The consolidated forecast has been prepared using assumptions that reflect management’s intended course of action for the periods covered, given management’s judgment as to the most probable set of economic conditions. The consolidated forecast will be compared with the reported results for the forecast periods and any significant differences will be disclosed. The actual results achieved during the forecast periods will vary from the forecast results, and these variations may be material.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated forecast has been prepared in accordance with Canadian generally accepted accounting principles and reflects the following policies:

(a) *Principles of consolidation*

This consolidated forecast includes the forecast results of operations of the REIT and its subsidiaries and the proportionate share of the assets, liabilities, revenues and expenses of joint ventures, including the REIT’s 50% interest in Choice Hotels Canada Inc. (“CHC”).

(b) *Capital assets*

Capital assets are recorded at cost to the REIT at acquisition, including all acquisition costs and related fees. Costs of betterments and improvements are capitalized to the hotel properties.

The REIT will depreciate its capital assets on a straight-line basis over their estimated useful lives over a period not to exceed the following:

Buildings . . . . .	40 years
Building renovations . . . . .	7 years
Furniture and equipment . . . . .	7 years
Paving . . . . .	10 years

(c) *Deferred financing costs*

Deferred financing costs consist of commitment fees, underwriting costs and legal costs associated with the sourcing of new debt and the renewal of existing debt of the REIT. These costs are amortized over the term of the applicable debt.

(d) *Licence contracts*

Licence contracts are recorded at the value attributed to the discounted cash flow of the expected earnings stream under the contract terms at the time of acquisition. These costs are amortized over the average life or expected renewal life of the contracts, which is estimated to be 20 years.

(e) *Revenue recognition*

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Monthly revenues from licence contracts are based on gross room revenue as reported by the franchisees and are recorded when earned with an appropriate provision for estimated uncollectible amounts. Initial franchise fees are recorded as income when the cash has been received and upon execution of binding contracts.

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE STATEMENTS OF FORECAST CONSOLIDATED NET INCOME (Continued)**  
**For the six months ending December 31, 2002, the six months ending June 30, 2003**  
**and for the twelve months ending June 30, 2003**  
**(all dollar amounts, except per unit amounts, are in thousands)**

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(f) *Income taxes*

Pursuant to the terms of the Declaration of Trust, the trustees of the REIT are required to make distributions or designate all taxable income earned, including the taxable part of net realized capital gains, by the REIT to unitholders and will deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required on income earned by the REIT.

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

Future income tax liabilities of the REIT result primarily from tax and accounting basis differences in corporate subsidiaries of the REIT.

**4. SIGNIFICANT ASSUMPTIONS**

The forecast gives effect to the following assumptions:

(a) *Initial public offering*

On July 18, 2002 the REIT entered into an underwriting agreement whereby the REIT assumes it will raise gross proceeds of \$300,000 pursuant to an initial public offering (the "Offering") through the issuance of 30,000,000 units at a price of \$10 per unit (excluding any over-allotment option). Costs relating to the Offering, including underwriters' fees, are assumed to be \$22,945 and are charged directly to unitholders' equity.

(b) *Asset acquisition*

On closing of the Offering, it is assumed the REIT and/or its subsidiaries will acquire the following assets which are currently owned by W-Westmont Corp., WW Canada Corp., WW Hotel Holdings LP and WHRB Realty Co. and their respective subsidiaries: 114 Canadian hotel properties, CHC, various licence contracts, cash and current assets, and will assume mortgages and current liabilities (combined, the "Acquired Hotel Portfolio"). The REIT will assume the working capital related to the hotel properties and CHC on acquisition which is expected to be \$nil. Should the working capital be negative on closing of the acquisition, the vendors will pay the REIT an amount equal to the working capital deficiency.

Net assets acquired are as follows:

Cash . . . . .	\$ 12,356
Current assets . . . . .	11,707
Hotel properties . . . . .	865,193
Licence contracts . . . . .	26,320
	<u>915,576</u>
Future income tax liability . . . . .	(123,200)
Assumption of existing long-term debt . . . . .	(430,139)
Current liabilities . . . . .	(24,063)
	<u>\$ 338,174</u>

Net consideration paid consists of the following:

Units . . . . .	\$ 110,689
Payment of land transfer tax and other acquisition costs . . . . .	6,700
Convertible debentures . . . . .	75,000
Cash . . . . .	145,785
	<u>\$ 338,174</u>

The net consideration paid is after giving effect to the subscription for and purchase of 11,068,910 units at a price of \$10 per unit, for gross proceeds of \$110,689, and \$75,000 of convertible debentures by certain vendors.

This purchase price allocation has been determined based on balances as at March 31, 2002 and will be different once the acquisition is closed.

The convertible debentures will bear interest at a rate of 9.75% per annum payable semi-annually in arrears and will mature on June 30, 2007. Each \$1,000 principal amount of convertible debentures will be convertible at the option of the holder into 93.0233 units (representing a conversion price of \$10.75 per unit). The convertible debentures will be redeemable, in whole or from

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE STATEMENTS OF FORECAST CONSOLIDATED NET INCOME (Continued)**  
**For the six months ending December 31, 2002, the six months ending June 30, 2003**  
**and for the twelve months ending June 30, 2003**  
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**4. SIGNIFICANT ASSUMPTIONS (Continued)**

time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. Provided that there is not a current event of default, the REIT will have the option to satisfy its obligation to pay interest on any interest payment date, or to pay the principal amount of the convertible debentures due at maturity or upon redemption, in whole or in part by issuing the number of units equal to the amount of the REIT's interest payment obligation or, in the case of maturity or redemption, the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable.

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

The future tax liability that is expected to be recorded on the acquisition of the Acquired Hotel Portfolio of \$123,200 results primarily from differences between the amount allocated for accounting purposes to hotel properties and licence contracts, and their tax values. The REIT anticipates that this balance will not result in cash income taxes payable by the REIT unless the related asset is sold for an amount greater than its tax value. This balance has been recorded based on an average rate of 31.5%.

(c) *Working capital*

The REIT has forecast working capital balances throughout the forecast period, which results in invested cash balances of approximately \$10 million after funding capital improvements and cash distributions. Cash is assumed to earn 2% per annum.

(d) *Hotel revenues and expenses*

	Three months ending		Six months ending	Three months ending		Six months ending	Twelve months ending
	September 30, 2002	December 31, 2002	December 31, 2002	March 31, 2003	June 30, 2003	June 30, 2003	June 30, 2003
Number of rooms at period end . . . . .	11,602	11,602	11,602	11,602	11,602	11,602	11,602
Average daily rate (in dollars) . . . . .	92.16	81.84	87.81	78.44	85.00	82.08	85.13
Occupancy . . . . .	78.9%	57.6%	68.2%	54.7%	67.3%	61.0%	64.7%
Revenue per available room (in dollars) . . . . .	72.74	47.10	59.92	42.93	57.21	50.11	55.05

Forecasted hotel revenues, operating expenses and property taxes, rent and insurance are based upon the current budgets of the individual hotels. Room revenues are based upon historical occupancy and room rates, adjusted for expected trends in each of the markets the hotels serve and are assumed to increase 3.6% in the twelve-month period ending June 30, 2003 over the year ended December 31, 2001. Food, beverage and other revenues are based on historical results for the individual hotel properties and are assumed to increase by 7% in the twelve-month period ending June 30, 2003 over the year ended December 31, 2001. Operating expenses are forecast as a function of revenues, based upon historical relationships. Property taxes, rent and insurance are forecast to increase by 10.2% in the twelve-month period ending June 30, 2003 over the year ended December 31, 2001.

Revenues earned from hotel operations fluctuate throughout the year, with the September quarter being the highest, due to the increased level of leisure travel in the summer months, and the March quarter being the lowest as leisure travel tends to be lower. Hotel management fees are calculated at 3.375% of forecasted hotel revenues and are based on hotel management agreements.

(e) *Loyalty program*

The vendors have committed 98 hotels to participate in a customer loyalty program. To fund and discharge the commitment the vendors have agreed to pay the REIT \$1,800. Hotel revenues and expenses for the forecast period exclude any revenue or expenses with respect to this loyalty program.

(f) *Interest on mortgages and other debt*

The REIT will assume existing long-term debt on the acquired hotel properties in the amount of \$430,139 (face value of \$427,372), which bears interest at a weighted average interest rate of 6.3%. The mortgages are secured by first charges on certain of the REIT's hotel properties.

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE STATEMENTS OF FORECAST CONSOLIDATED NET INCOME (Continued)**  
**For the six months ending December 31, 2002, the six months ending June 30, 2003**  
**and for the twelve months ending June 30, 2003**  
**(all dollar amounts, except per unit amounts, are in thousands)**

**4. SIGNIFICANT ASSUMPTIONS (Continued)**

The forecast assumes that new first mortgage financing (the "New Debt") in the amount of \$216,708 has been arranged, which bears interest at a weighted average interest rate of 8.3% for an average term of 5 years. The forecast assumes that \$7,313 of costs are incurred as a result of placing this debt.

Debt assumed on the acquisition of the Acquired Hotel Portfolio in the amount of \$323,965 is assumed to be repaid from the proceeds of the Offering and the proceeds of the New Debt as follows:

Mortgages . . . . .	\$248,092
Unsecured debt . . . . .	75,873
	<u>\$323,965</u>

Upon entering into the new financing and the repayment as outlined above, the forecast assumes that the REIT will have \$322,882 (face value \$320,115) of long-term debt with a weighted average interest rate of 8.1%.

The forecast interest expense does not include interest on the convertible debentures as these payments will be recorded as a charge to equity.

(g) *Corporate and administrative*

Corporate and administrative expenses are based on budgeted costs forecast to be incurred by the REIT. Corporate and administrative expenses reflect the forecast expenses related to operating a public entity. These costs were not previously incurred in respect of the Acquired Hotel Portfolio.

(h) *Franchise business income*

Franchise business income is based on existing licence agreements, historical results adjusted for expected trends in each of the markets the hotels serve and expected new licence agreements to be entered into by CHC during the forecast period.

Franchise business income is forecasted to be the following:

	Three months ending		Six months ending	Three months ending		Six months ending	Twelve months ending
	September 30, 2002	December 31, 2002	December 31, 2002	March 31, 2003	June 30, 2003	June 30, 2003	June 30, 2003
Revenue . . . . .	\$1,661	\$1,144	\$2,805	\$694	\$1,049	\$1,743	\$4,548
Expense . . . . .	752	654	1,406	534	639	1,173	2,579
Franchise business income . . . . .	<u>\$ 909</u>	<u>\$ 490</u>	<u>\$1,399</u>	<u>\$160</u>	<u>\$ 410</u>	<u>\$ 570</u>	<u>\$1,969</u>

(i) *Income and capital taxes*

Pursuant to the terms of the REIT's Declaration of Trust, the trustees of the REIT are required to make distributions or designate all taxable income earned, including the taxable part of net realized capital gains, by the REIT to unitholders and will deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required on income earned by the REIT.

Canadian based corporate subsidiaries are subject to tax on their taxable income. Income taxes have been forecast based on a rate of 38.34% for the six months ending December 31, 2002 and 35.26% for the six months ending June 30, 2003. Future income tax liabilities are recorded in connection with accounting and tax basis differences on assets held within corporate subsidiaries of the REIT. The REIT forecasts that future income tax liabilities will not result in cash income taxes payable in the forecast period. The REIT has forecast cash capital and large corporations tax amounts for the forecast period.

(j) *Capital expenditures*

Capital expenditures are forecast to be the following:

	Three months ending		Six months ending	Three months ending		Six months ending	Twelve months ending
	September 30, 2002	December 31, 2002	December 31, 2002	March 31, 2003	June 30, 2003	June 30, 2003	June 30, 2003
Capital expenditures . . . . .	<u>\$1,002</u>	<u>\$2,347</u>	<u>\$3,349</u>	<u>\$4,940</u>	<u>\$1,728</u>	<u>\$6,668</u>	<u>\$10,017</u>

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE STATEMENTS OF FORECAST CONSOLIDATED NET INCOME (Continued)**  
**For the six months ending December 31, 2002, the six months ending June 30, 2003**  
**and for the twelve months ending June 30, 2003**  
**(all dollar amounts, except per unit amounts, are in thousands)**

**4. SIGNIFICANT ASSUMPTIONS (Continued)**

These capital expenditures do not include the capital projects which were not completed prior to the acquisition of the Acquired Hotel Portfolio, which will be effectively funded by the vendors on acquisition of the Acquired Hotel Portfolio.

Capital expenditures will be financed through cash held by the REIT.

(k) *Acquisitions and dispositions of hotel properties*

The forecast does not reflect any potential sales or acquisitions of hotel properties. However, it is possible the REIT will make purchases and sales of hotel properties during the forecast period, which will only be undertaken on a basis considered by management to be advantageous to the REIT and as approved by the Board of Trustees.

(l) *Other matters*

No material adverse changes in economic conditions and government legislation with respect to taxes, including realty taxes, other than announced changes, are anticipated during the forecast period.

**5. DISTRIBUTABLE INCOME**

Distributable income is not a GAAP measure and there is no standardized measure of distributable income. Distributable income, as presented, may not be comparable to similar measures presented by other real estate investment trusts. Distributable income means net income of the REIT as set out in its consolidated financial statements determined in accordance with Canadian generally accepted accounting principles ("Net Income"), subject to certain adjustments as 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, future income tax benefits and deducting the amount calculated, at 4% of hotel revenues, for the reserve for replacement of furniture, fixtures and equipment and capital improvements ("Reserve for FF&E and capital") and the interest on convertible debentures that is not included in the computation of Net Income, and any other adjustments determined by the trustees of the REIT in their discretion.

Forecast consolidated distributable income is computed as follows:

	Three months ending		Six months ending	Three months ending		Six months ending	Twelve months ending
	September 30, 2002	December 31, 2002	December 31, 2002	March 31, 2003	June 30, 2003	June 30, 2003	June 30, 2003
FORECAST CONSOLIDATED NET INCOME (LOSS) . . . . .	\$25,970	\$3,638	\$29,608	\$(1,547)	\$11,426	\$ 9,879	\$39,487
Add (deduct)							
Depreciation and amortization . . . .	8,125	8,125	16,250	8,125	8,125	16,250	32,500
Amortization of fair value debt adjustment . . . . .	(341)	(341)	(682)	(341)	(341)	(682)	(1,364)
Future income taxes . . . . .	(435)	(435)	(870)	(542)	(542)	(1,084)	(1,954)
Reserve for FF&E and capital . . . .	(3,312)	(2,169)	(5,481)	(1,946)	(2,590)	(4,536)	(10,017)
Convertible debenture interest . . . .	(1,828)	(1,828)	(3,656)	(1,828)	(1,828)	(3,656)	(7,312)
	<u>2,209</u>	<u>3,352</u>	<u>5,561</u>	<u>3,468</u>	<u>2,824</u>	<u>6,292</u>	<u>11,853</u>
FORECAST CONSOLIDATED DISTRIBUTABLE INCOME . . . . .	<u>\$28,179</u>	<u>\$6,990</u>	<u>\$35,169</u>	<u>\$ 1,921</u>	<u>\$14,250</u>	<u>\$16,171</u>	<u>\$51,340</u>
FORECAST CONSOLIDATED DISTRIBUTABLE INCOME PER UNIT — basic . . . . .	<u>\$ 0.69</u>	<u>\$ 0.17</u>	<u>\$ 0.86</u>	<u>\$ 0.05</u>	<u>\$ 0.35</u>	<u>\$ 0.39</u>	<u>\$ 1.25</u>
FORECAST CONSOLIDATED DISTRIBUTABLE INCOME PER UNIT — diluted . . . . .	<u>\$ 0.61</u>	<u>\$ 0.17</u>	<u>\$ 0.79</u>	<u>\$ 0.05</u>	<u>\$ 0.33</u>	<u>\$ 0.39</u>	<u>\$ 1.20</u>

**6. NET INCOME AND DISTRIBUTABLE INCOME PER UNIT**

Forecast net income and distributable income per unit assumes that 41,068,910 units are outstanding for the forecast period. Diluted per unit calculations assume the principal on the convertible debentures was repaid in units at the beginning of the period based on a \$10 market value and that 7,894,737 units were issued.

## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion reviews the operating performance and financial condition of the Acquired Hotel Portfolio, comprised of 114 hotels (11,602 rooms).

The discussion and analysis is based on, and should be read in conjunction with, the combined financial statements of the Acquired Hotel Portfolio which are contained in this prospectus. The review of operations includes an analysis for the three months ended March 31, 2002 and 2001 and for the years ended December 31, 2001, 2000 and 1999 while the financial position analysis is as at March 31, 2002, December 31, 2001 and 2000.

### Review of Operations

The following table summarizes the operating results of the Acquired Hotel Portfolio for the three months ended March 31, 2002 and 2001 and for the years ended December 31, 2001, 2000 and 1999.

### Operations Results Summary

	March 31, 2002	March 31, 2001	December 31, 2001	December 31, 2000	December 31, 1999
	(in millions)				
Hotel revenues . . . . .	\$47.5	\$48.5	\$242.0	\$242.8	\$234.8
Hotel expenses . . . . .	34.3	34.0	146.8	141.2	137.6
Operating income <sup>(1)</sup> . . . . .	13.2	14.4	95.2	101.6	97.2
Other (income) and expenses . . . . .	15.8	17.5	68.0	70.1	67.3
Income (loss) before income tax expense and goodwill amortization . . . . .	(2.6)	(3.1)	27.2	31.5	29.9
Net income (loss) . . . . .	(0.1)	(1.3)	29.6	44.8	12.3
Operating cash flow <sup>(2)</sup> . . . . .	5.1	3.9	52.2	54.0	52.8

(1) Also referred to in this prospectus as Property Net Operating Income (“NOI”) (Pre-Reserve).

(2) Operating cash flow is defined as net income before goodwill amortization, depreciation and amortization, future income taxes, and non-controlling interest

### *Hotel Revenues*

Hotel revenues primarily consist of revenue generated from room occupancy. Revenue from food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, valet and parking, and telephone are also included, and account for approximately 8% of the total revenue of the Acquired Hotel Portfolio. Revenues earned from hotel operations fluctuate throughout the year, with the third quarter being the highest, due to the increased level of leisure travel in the summer months, and the first quarter being the lowest, as leisure travel tends to be lower.

#### *Three months ended March 31*

For the three months ended March 31, 2002, hotel revenues were \$47.5 million, compared to \$48.5 million for March 31, 2001 a decrease of \$1.0 million or 2.1%. Room revenue and RevPAR declined by 1.5%, as the net result of a 2.6% decrease in ADR from \$77.71 in 2001 to \$75.69 in 2002, and an increase of 1.1% in occupancy from 54.1% in 2001 to 54.7% in 2002. The increase in occupancy at the expense of average daily rates is a function of building base business at certain hotels.

#### *Years ended December 31*

In 2001, revenues were \$242.0 million compared to \$242.8 million for 2000, a decline of 0.3%. Room revenue and RevPAR declined by 0.5% from \$53.36 in 2000 to \$53.11 in 2001. This was the net result of a 0.5% increase in ADR from \$82.14 in 2000 to \$82.51 in 2001 and a decline of 0.92% in occupancy from 65.0% in 2000 to 64.4% in 2001. The increase in ADR was a result of effective yield management while the decline in

occupancy was a function of higher rates and the new supply of hotel rooms in certain of the markets in which the Acquired Hotel Portfolio is located, as well as the economic slowdown and the events of September 11, 2001.

2000 revenues of \$242.8 million compared to \$234.8 million for 1999, an increase of 3.4%. Room revenue and RevPAR increased by 3.1% from \$51.75 in 1999 to \$53.36 in 2000. This was the result of 6.6% increase in ADR from \$77.08 in 1999 to \$82.14 in 2000, combined with a decrease in occupancy of 3.1% from 67.1% in 1999 to 65.0% in 2000. The increase in ADR was a result of effective yield management while the decline in occupancy was a function of higher rates and the new room supply of hotel rooms in certain of the markets in which the Acquired Hotel Portfolio is located.

### ***Hotel Expenses***

Hotel expenses are made up of direct operating expenses, property taxes, rent, insurance and management fees. Direct operating expenses include labour costs, room expenses, food and beverage expenses, administration, sales and marketing, maintenance, utilities and franchise fees.

#### *Three months ended March 31*

For the three months ended March 31, 2002, hotel expenses increased slightly from \$34.0 million for the same period in 2001 by 0.9% to \$34.3 million. The operating expense increase can be attributed to an increase in marketing expenses and property taxes offset by a decrease in other areas as the result of cost saving initiatives implemented post September 11, 2001.

#### *Years ended December 31*

In 2001, hotel expenses were \$146.8 million, an increase of 4.0% over the \$141.2 million reported for 2000. Operating expenses increased by 3.5% primarily due to an increase in direct room expense and in marketing expenses in response to economic slowdowns and the events of September 11, 2001. Property taxes, rent and insurance increased by 8.3% primarily due to increases in property taxes. Management fees remained flat as they are a percentage of hotel revenues which remained relatively constant.

In 2000, hotel expenses were \$141.2 million, an increase of 2.6% over the \$137.6 million reported for 1999. Operating expenses increased by 1.1%, property taxes, rent and insurance increased modestly by 0.2% and management fees increased by 42.8%, due to a change in the management fee structure.

### ***Operating Income***

#### *Three months ended March 31*

The decrease in revenue and modest increase in expenses combined to create a decrease in operating income for the three months ended March 31, 2002 of \$1.2 million over the same period in the previous year.

#### *Years ended December 31*

The impact of the modest decline in revenues in 2001 over 2000 and the 3.9% increase in hotel expenses resulted in an operating income decrease of \$6.4 million, from \$101.6 million to \$95.2 million, a decline of 6.3%. In 2000, the net increase in operating income was \$4.4 million or 4.5% over the \$97.2 million achieved in 1999.

### ***Other Income and Expenses***

Other income and expenses is made up of interest on mortgages and other debt, corporate and administrative costs, capital tax, franchise business income, other income, non-controlling interest and depreciation and amortization.

#### *Three months ended March 31*

For the three months ended March 31, 2002 other income and expenses were \$15.8 million, a reduction of \$1.7 million over the \$17.5 million recorded for the same period in the previous year. The decrease can be

attributed to a reduction of \$2.4 million in interest expense due to lower interest rates on floating rate debt, partially offset by an increase in depreciation and amortization.

*Years ended December 31*

In 2001, other income and expenses decreased from a net expense of \$70.1 million in 2000 to \$68.0 million in 2001, a decrease of 3.0%. The decrease was primarily attributable to a decline in interest expense of \$4.5 million on account of lower interest rates on floating rate debt, partially offset by higher depreciation and amortization of \$2.0 million and an increase in corporate and administrative costs of \$0.2 million.

In 2000, other income and expenses increased by \$2.8 million from a net expense of \$67.3 million in 1999 to \$70.1 million in 2000. The increase in interest expense resulting from higher average debt levels of \$3.4 million and increased depreciation and amortization of \$3.9 million were partially offset by the decrease of \$3.7 million in corporate and administrative expenses, resulting from changes in the management fee structure.

Non-controlling interest expense has declined over the reporting period reflecting the ongoing acquisition of minority owners. Subsequent to December 31, 2001 the balance of the non-controlling interest were acquired.

**Income Taxes**

*Three months ended March 31*

For the three months ended March 31, 2002 the income tax recovery was \$2.5 million, which consisted of large corporations tax of \$0.4 million that was payable and the recognition of future tax benefits of \$2.9 million.

*Years ended December 31*

A future income tax recovery of \$13.1 million was recorded in fiscal 2001 compared to \$24.6 million in 2000. The future income tax recoveries resulted from the reduction in the recorded amount of income tax liabilities recorded in these two years, which was due to substantively enacted income tax reductions announced in the Canadian provincial and federal budgets. These amounts are net of the future income tax expense recorded as a result of depreciation for accounting purposes and the lesser amount allowed as capital cost allowance for income tax purposes for the respective years.

**Changes in Financial Condition**

*Investing Activities*

The book value of properties at December 31, 2001 amounted to \$645.6 million or approximately 83% of the total assets of the Acquired Hotel Portfolio. Hotel Properties decreased by \$8.9 million which is the net of capital additions and depreciation during the year.

*Three months ended March 31*

For the three months ended March 31, 2002 investing activities amounted to \$3.9 million, of which \$3.6 million was funds expended as part of the regular hotel property refurbishment program, while the remainder was cash placed in an escrow account with mortgage lenders for the purpose of funding annual replacement of furniture, fixtures and equipment and capital improvements. For the same period in the previous year, the amounts were \$4.2 million for total investing activities, of which \$3.7 million was expended on refurbishments and \$0.4 million was placed in an escrow account with mortgage lenders for the same purpose.

*Years ended December 31*

In 2001, investing activities utilized net cash of \$17.4 million compared to \$18.7 million in 2000, a decrease of \$1.3 million. Major expansion and renovation projects utilized cash of \$6.0 million, including \$4.9 million for the addition of 81 rooms at two Comfort Inns, while \$10.6 million (4.4% of hotel revenues) was spent on the ongoing refurbishment program. This compares to \$3.2 million for major expansion and renovation projects and \$10.9 million (4.5% of hotel revenues) for ongoing refurbishment in 2000.

Hotel property additions were \$4.7 million higher in 1999 than 2000. This was due to a significant number of Travelodge hotels which underwent major renovations. A total of \$8.5 million was spent for this purpose, while \$10.3 million (4.4% of hotel revenues) was spent on the ongoing refurbishment program.

As part of the budget process, the normal reserve for replacement of furniture, fixtures and equipment and capital improvements are managed over the longer term. This reserve is maintained to ensure that the properties remain competitive in their markets. In 1999, 2000 and 2001 additional amounts were required to be spent to bring the facilities up to the required standards after the acquisition of the majority of the properties in 1999.

### ***Financing Activities***

#### ***Three months ended March 31***

For the three months ended March 31, 2002, financing activities included an advance of \$5.2 million on a loan facility available to fund a portion of capital expenditures for the regular refurbishment programs. Regularly scheduled principal payments on long-term debt amounted to \$2.7 million, while an operating loan balance of \$3 million at December 31, 2001 was repaid in the quarter.

For the three months ended March 31, 2001, total debt repaid was \$7.0 million, of which regularly scheduled principal payments on long-term debt amounted to \$2.7 million. Financing activities included an advance of \$3.6 million on the Acquired Hotel Portfolio's loan facility available to fund a portion of capital expenditures, and an additional \$4.3 million to fund maturing debt.

#### ***Years ended December 31***

During 2001, \$76.9 million of debt, representing \$68.0 million in maturing debt and \$8.9 million of amortization under secured facilities were repaid. New financing of \$76.9 million was completed during the year.

In 2000, mortgage debts of \$19.7 million were repaid of which \$7.2 million was regularly scheduled principal repayments and \$12.5 million was maturing debts. Total new mortgage debt financing of \$19.1 million was advanced during 2000.

In 1999, mortgage debts of \$93.3 million were repaid of which \$7 million was regularly scheduled principal repayments and \$86.3 million was maturing debts. Total new mortgage debt financing of \$109.3 million was advanced during 1999.

### ***Liquidity and Capital Resources***

Liquidity was generated from cash flow from hotel operations, bank operating lines available of \$5 million and by financing certain unencumbered or under-leveraged assets. Cash flow from operations before changes in working capital remained constant over the three year period.

### **Risks and Uncertainties**

The Acquired Hotel Portfolio was, and the REIT similarly is, subject to the normal operating risks common to the hotel industry as described under "Risk Factors".

## **MANAGEMENT OF INNVEST REIT**

InnVest REIT's investments will be subject to the control and direction of the Trustees, and the management of investments of the REIT will be supervised by the Senior Executives.

### **Board of Trustees**

The Declaration of Trust provides that the assets and operations of InnVest REIT will be subject to the control and authority of a minimum of five and a maximum of nine Trustees (initially set at seven). The number of Trustees within such minimum and maximum numbers may be changed by the Unitholders or by the Trustees, provided that the Trustees may not, between meetings of Unitholders, appoint an additional Trustee if, after

such appointment, the total number of Trustees would be greater than one and one-third times the number of Trustees in office immediately following the last annual meeting of Unitholders. The Trustees have been authorized to change the number of Trustees, subject to this limit.

The Whitehall Funds will have the right to appoint two Trustees, provided that the Whitehall Funds continue to own in the aggregate at least 15% of the outstanding Units (including Units issuable upon the conversion of all of the Vendor Convertible Debentures) or, if the Whitehall Funds cease to hold at least that number of Units, one Trustee, provided that the Whitehall Funds continue to hold at least 5% of the outstanding Units (including Units issuable upon the conversion of all of the Vendor Convertible Debentures). The Westmont Group will have the right to appoint one Trustee, provided that Maple Leaf or other affiliates of the Westmont Group continue to own at least 5% of the outstanding Units. The Manager will have the right to appoint one Trustee, provided that the Master Hotel Management Agreement remains in effect and that the appointment would not result in a majority of the Trustees not being Independent Trustees. Initially, the Whitehall Funds and the Westmont Group will be entitled collectively to appoint three of the seven Trustees. The remaining Trustees are to be elected by a plurality of the votes cast at a meeting of the Unitholders. The Whitehall Funds and the Westmont Group are entitled to vote their Units for the election of the remaining Trustees.

Trustees elected at an annual meeting will be elected for terms expiring at the next annual meeting or until their successors are elected or appointed and will be eligible for re-election. A Trustee elected or appointed to fill a vacancy will be elected for the remaining term of the Trustee whom he or she is succeeding. A vacancy occurring among the Trustees (other than a vacancy resulting from the resignation or removal of a nominee of the Whitehall Funds or the Westmont Group) may be filled by resolution of a quorum of the remaining Trustees, being the greater of three Trustees and a majority of the Trustees then holding office, or by the Unitholders at a meeting of the Unitholders.

The initial Trustees are Majid Mangalji, Frank Anderson, Brian C. Collyer, Morton Gross, Michael P. Kitt, Minhas N. Mohamed and Lauren J. Zucker. The Trustees are responsible for, among other things: (i) maintaining records and providing reports to Unitholders; (ii) supervising the activities of InnVest REIT; (iii) ensuring that the restrictions in the Declaration of Trust are adhered to, including the restriction on non-resident ownership; (iv) managing the affairs of InnVest REIT; and (v) declaring distributions from InnVest REIT to Unitholders. The Declaration of Trust provides for three committees of the Board of Trustees: the Investment Committee, the Audit Committee and the Compensation and Corporate Governance Committee. See “— Committees”.

The Declaration of Trust contains additional provisions with respect to Trustees:

- a majority of the Trustees must be Independent Trustees;
- a majority of the Trustees must be residents of Canada for the purposes of the Tax Act; and
- a Trustee may resign upon written notice to InnVest REIT and a Trustee (other than a nominee of the Whitehall Funds or the Westmont Group) may be removed with or without cause by a majority of the votes cast at a meeting of Unitholders or the written consent of Unitholders holding a majority of the outstanding Units, or with cause by two-thirds of the remaining Trustees.

The standard of care and duties of the Trustees provided in the Declaration of Trust are similar to those imposed on a director of a corporation governed by the *Canada Business Corporations Act*. Accordingly, each Trustee is required to exercise the powers and discharge the duties of his or her office honestly, in good faith and in the best interests of InnVest REIT and the Unitholders and, in connection therewith, to exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

## Trustees and Officers

The name and municipality of residence, office held with InnVest REIT and principal occupation of each Trustee and officer of InnVest REIT are as follows:

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation</u>
Majid Mangalji <sup>(1)(3)</sup> . . . . . Wimbledon, England	Trustee, Chair of the Board of Trustees	President, Westmont Group
Frank Anderson <sup>(2)(3)(4)</sup> . . . . . Toronto, Ontario	Trustee	Executive Vice-President, Hy & Zel's Inc.
Brian C. Collyer <sup>(3)(5)</sup> . . . . . Colleyville, Texas	Trustee	Vice-President, Goldman, Sachs & Co. (investment bank)
Morton Gross, Q.C. <sup>(2)(3)(6)</sup> . . . . . Toronto, Ontario	Trustee	Partner, Borden Ladner Gervais LLP (law firm)
Michael P. Kitt <sup>(2)(3)(4)(6)</sup> . . . . . Toronto, Ontario	Trustee	Executive Vice-President, Development, The Cadillac Fairview Corporation Limited (real estate)
Minhas N. Mohamed <sup>(2)(3)(4)(6)</sup> . . . . . Toronto, Ontario	Trustee	Managing Partner, MM Venture Partners (venture capital)
Lauren J. Zucker <sup>(3)(5)</sup> . . . . . New York, New York	Trustee	Vice-President, Goldman, Sachs & Co.
Kenneth D. Gibson . . . . . Conroe, Texas	President and Chief Executive Officer	President and Chief Executive Officer, InnVest REIT and Chief Operating Officer, Westmont Hospitality Management Limited and the Manager
Tamara L. Lawson . . . . . Toronto, Ontario	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary, InnVest REIT and Chief Financial Officer, Westmont Hospitality Management Limited and the Manager

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

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

**Majid Mangalji** is President of the Westmont Group which started its hospitality business 28 years ago. Mr. Mangalji has been involved in all aspects of the development of Westmont Group. During this period it has grown from a single hotel to become one of the largest private hotel owner/operators in the world with a significant presence in North America, Europe, and recently in Asia. As the head of this global hotel group, he has developed an extensive knowledge of international hospitality markets, investing and operating in these markets and has created strong relationships with major international hotel brands and leading financial institutions. Mr. Mangalji sits on the boards of the principal hospitality companies in which the Westmont Group invests. He holds a business degree with a double major in Accounting and Marketing from the University of Bradford, England.

**Frank Anderson** was a senior partner in the Toronto office of a major accounting firm until his retirement in 1999. He specialized in the consumer products, real estate, hospitality and advertising industries. Mr. Anderson is currently the Executive Vice-President of Hy & Zel's Inc. Mr. Anderson is a member of the Board of

Directors of the Canadian Council of Christians and Jews and the Founding Chairman of Cornerstone 52 Foundation, a charitable organization dedicated to funding children's charities. He obtained an undergraduate degree in Economics from the University of Glasgow, his C.A. designation from the Institute of Chartered Accountants of Scotland and was elected a Fellow of the Institute of Chartered Accountants of Ontario in 1997.

**Brian C. Collyer** is a Vice-President in the Real Estate Principal Investment Area at Goldman, Sachs & Co., with a focus on the Whitehall Street Real Estate Funds' Canadian and Latin American Investments. From 1996 to 2000, he was responsible for the origination of mortgage and real estate investments for Gentra Inc., a Canadian real estate company. Over the last 10 years, Mr. Collyer has managed the sale, joint venture or acquisition of more than \$4 billion of Canadian and U.S. real estate assets for large public real estate companies. Mr. Collyer was formerly an officer of Bramalea Limited, which in 1995 made filings under Canadian insolvency laws. Mr. Collyer holds an undergraduate degree in architecture from the University of Manitoba and a Master of Business Administration from McGill University. He was also a member of Canada's 1984 Olympic team.

**Morton Gross, Q.C.** is a senior partner in the Toronto office of the law firm of Borden Ladner Gervais LLP, where he practises in the areas of commercial and real estate law, including in the area of hotels and hospitality. Mr. Gross is the Chair of his firm's National Real Estate Professional Group. Prior to joining Borden Ladner Gervais LLP in 1982, he specialized in real estate law at his own firm. Mr. Gross holds a Bachelor of Laws degree from the University of Toronto and was called to the Ontario Bar in 1967.

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

**Minhas N. Mohamed** is the founder of MM Venture Partners and has overall management and strategic responsibility for the partnership. MM Venture Partners provides debt and equity financing to early and mid-stage Canadian information technology and biotechnology companies. Prior to founding MM Venture Partners in August 1998, Mr. Mohamed spent 10 years as a senior partner and shareholder of Quorum Funding Corporation, one of Canada's leading dedicated emerging technology funds. He has been a director of many public companies, including Promis Systems and Quorum Funding Corporation. Mr. Mohamed is a founding member and former Chairman of the Toronto Venture Group. He is also a member of the Association of Venture Capital Corporations. Mr. Mohamed is a graduate of the University of Western Ontario and is a Chartered Accountant and a Chartered Financial Analyst.

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

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

**Tamara L. Lawson** is the Chief Financial Officer and Secretary of InnVest REIT and the Chief Financial Officer of Westmont Hospitality Management Limited and the Manager. Prior to joining the Westmont Group in 2001, she served as Senior Vice-President & Chief Financial Officer of MDS Proteomics Inc., a world leading proteomics biotechnology company. Prior to joining MDS Proteomics in 2000, she held numerous senior executive positions at several major Canadian companies, including Executive Vice-President, Chief Financial Officer and Secretary of Chapters Inc. (1998 to 2000) and Treasurer of Sears Canada Inc. (1995 to 1998). She is also currently a director of Choice Canada. Ms Lawson holds a Master of Business Administration degree from York University and has been a Chartered Accountant since 1982.

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

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

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

## **Independent Trustee Matters**

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

- (a) to make a material change to the Master Hotel Management Agreement or Administrative Services Agreements, change the fees payable to the Manager, renew the Master Hotel Management Agreement or the Administrative Services Agreements at the end of their respective terms or appoint a substitute for the Manager after the end of the term of the Master Hotel Management Agreement;
- (b) to enter into any agreement or transaction in which any Related Party has a material interest or make a material change to any such agreement or transaction;
- (c) relating to a claim by or against any Related Party;
- (d) relating to a claim in which the interests of a person referred to in paragraph (c) above differ from the interests of InnVest REIT;
- (e) to increase the number of Trustees by no more than one-third in accordance with the Declaration of Trust and to appoint Trustees to fill the vacancies so created;
- (f) to recommend to the Unitholders that the number of Trustees be increased, where a vote of Unitholders thereon is required, and to nominate individuals as Trustees to fill the vacancies so created;
- (g) to acquire any real or other property in which a Related Party has an interest or to sell any interest in any real or other property to a Related Party;
- (h) to make any changes in compensation of an employee who is also an employee of a Related Party;

- (i) to grant options to purchase Units under any Unit option plan approved by the Trustees or to award any right to acquire or other right or interest in Units or securities convertible into or exchangeable for Units under any plan approved by the Trustees; and
- (j) to approve or enforce any agreement entered into by the InnVest REIT with a Trustee who is not an Independent Trustee or an associate thereof, with a Related Party, or with the Manager or any successor as hotel manager under the Master Hotel Management Agreement.

## **Committees**

### *Investment Committee*

The Declaration of Trust provides that the Trustees shall appoint among their number an Investment Committee consisting of at least three Trustees. A majority of the members of the Investment Committee must be Independent Trustees.

The Investment Committee will initially consist of all seven Trustees. The Investment Committee has the power, in the case of transactions with a Related Party subject to the Independent Trustee approval requirements described under “— Independent Trustee Matters”, to approve or reject proposed acquisitions and dispositions of investments by the REIT, to authorize proposed transactions on behalf of the REIT and to approve all financing arrangements and the assumption or granting of any mortgage.

### *Audit Committee*

The Declaration of Trust requires the creation of an Audit Committee, consisting of at least three Trustees, to review and report to the Trustees on the financial statements of InnVest REIT. All of the members of the Audit Committee must be Independent Trustees. The Trustees have appointed an Audit Committee consisting of three Trustees, Messrs. Anderson (Chair), Kitt and Mohamed.

### *Compensation and Corporate Governance Committee*

The Declaration of Trust requires the creation of a Compensation and Corporate Governance Committee, consisting of at least three Trustees, all of whom must be Independent Trustees, to review the compensation of the Trustees and officers of InnVest REIT and the governance of InnVest REIT. The Trustees have appointed a Compensation and Corporate Governance Committee consisting of three Trustees, Messrs. Gross (Chair), Kitt and Mohamed.

## **Remuneration of Trustees**

At Closing, each Trustee will receive a one-time grant of 1,000 Units and a one-time cash payment in an amount sufficient to offset any tax liability resulting from the grant and such one-time payment. The Trustees, other than Trustees who are also employees of InnVest REIT or any subsidiary, will receive remuneration of \$20,000 per year plus \$1,000 per day that meetings are attended (\$500 per day if attendance is via teleconference) and reimbursement of their out-of-pocket expenses incurred in acting as a Trustee. The Chair of the Board of Trustees of the REIT, if not an employee of InnVest REIT, will receive additional remuneration of \$10,000 per year. Each Trustee who is chair of a committee of the Board of Trustees (except the Investment Committee when it is a committee of the whole), if not an employee of the REIT, will receive additional remuneration of \$5,000 per year. Trustees will be paid one-half of their annual compensation in Units (based on the then current market price of the Units). The REIT has reserved a maximum of 100,000 Units for this purpose, and any increase in this maximum is subject to regulatory approval and Unitholder approval, if required. Such fees can only be changed by unanimous consent of the Trustees. In addition, Trustees, either directly or indirectly, are entitled to receive remuneration for services rendered to InnVest REIT in any other capacity. Trustees who are employees of and who receive salary from the REIT shall not be entitled to receive any remuneration for their services as trustees but shall be entitled to reimbursement of their out-of-pocket expenses.

## Master Hotel Management Agreement

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

The Manager has been incorporated for the purposes of this transaction. The obligations of the Manager under the Master Hotel Management Agreement will be guaranteed by Westmont Hospitality Management Limited. The Manager and the guarantor are both part of the Westmont Group. The obligations of the Operator will be guaranteed by InnVest Properties Corp.

The Master Hotel Management Agreement will have an initial term of 10 years. Thereafter, the agreement will be subject to two successive five-year renewal terms, subject to the consent of the Manager and approval by the Operator. If InnVest REIT acquires any additional hotels during the term of the Master Hotel Management Agreement, the Manager will manage such additional hotels in accordance with the Master Hotel Management Agreement for the balance of the term of the agreement.

The Master Hotel Management agreement will provide for the payment of an annual management fee to the Manager during the term of the agreement, including renewal periods, in an amount equal to 3.375% of gross revenues from the Portfolio, calculated and payable monthly. In addition, the Manager will receive an annual incentive fee such that it participates in increases in Distributable Income per Unit in excess of the forecast Distributable Income per Unit contained in this prospectus and upon which the offering price is based. The incentive fee shall be equal to the sum of: (i) 15% of the amount by which 90% of Distributable Income in any year exceeds the First Incentive Fee Hurdle but is less than or equal to the Second Incentive Fee Hurdle, plus (ii) 20% of the amount by which 90% of Distributable Income exceeds the Second Incentive Fee Hurdle but is less than or equal to the Third Incentive Fee Hurdle, plus (iii) 25% of the amount by which 90% of Distributable Income exceeds the Third Incentive Fee Hurdle. For this purpose, the First Incentive Fee Hurdle is an amount equal to the product of \$1.125 per Unit (being 90% of the forecast Distributable Income per Unit) multiplied by the weighted average number of Units outstanding during the relevant period. The Second Incentive Fee Hurdle is an amount equal to the product of \$1.275 per Unit (being 90% of the Distributable Income per Unit that would be derived based on the forecast Distributable Income yield on the Unit issue price plus 150 basis points) multiplied by the weighted average number of Units outstanding during the relevant period. The Third Incentive Fee Hurdle is an amount equal to the product of \$1.425 per Unit (being 90% of the Distributable Income per Unit that would be derived based on the forecast Distributable Income yield on the Unit issue price plus 300 basis points) multiplied by the weighted average number of Units outstanding during the relevant period. The incentive fee hurdle calculations shall be subject to customary anti-dilution provisions, primarily to protect the Manager, in the event of certain events including, without limitation, Unit splits, Unit consolidations and distributions to Unitholders other than in the ordinary course of business resulting from, among other things, refinancings or asset sales. For example, such a distribution would lead to a proportional reduction in the incentive fee hurdles and, conversely, a Unit consolidation would lead to a proportional increase in the incentive fee hurdles.

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

Internalization of the management of the Hotel Businesses on the basis of payment to the Manager of a fee in excess of the sum of the base management fee and incentive fee payable during the 12 months preceding such internalization shall be subject to the approval of not less than 66⅔% of the votes cast by Unitholders (excluding Units beneficially-owned by or on behalf of the Westmont Group) at a meeting called for such purpose.

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

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

The Master Hotel Management Agreement will provide that the Operator will make a termination payment to the Manager if the REIT sells a hotel or hotels to an unrelated third party during the term of the agreement and the Manager is not continued as manager of the hotel or hotels that are sold. If the hotel or hotels being sold in any 12 month period represent 10% or less of the Gross Book Value of the Portfolio, such termination payment will be equal to the sum of base management fee and incentive fee reasonably allocable to that hotel or hotels over the 12 months immediately preceding the sale. If the hotel or hotels being sold in any 12 month period represent more than 10% of the Gross Book Value of the Portfolio, such termination payment will be the amount that is equal to the base management fee and incentive fee over the 36 months immediately preceding the sale reasonably allocable to the hotel or hotels being sold that represent in excess of 10% of the Gross Book Value of the Portfolio.

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

Certain significant decisions or consents by the Operator, such as renewal terms and extensions, consents to assignment of the Master Hotel Management Agreement or change of control of the Manager are subject to ratification by the Independent Trustees on behalf of the REIT and the approval of annual budgets and other reimbursements to the Manager are subject to the approval of the Trustees on behalf of the REIT, in each case as the sole shareholder of the general partner of the Operator.

## Senior Executives

On Closing, Kenneth D. Gibson will serve as the President and Chief Executive Officer of InnVest REIT, and Tamara L. Lawson will serve as the Chief Financial Officer and Secretary of InnVest REIT. The Senior Executives are currently the only employees directly employed by the REIT itself. Additional officers or employees may be hired to support the Senior Executives in fulfilling their duties to the REIT. In addition to the services under the Administrative Services Agreement between the REIT and the Manager, the REIT may also outsource other services necessary to the operation of the REIT to third parties, including the Westmont Group, subject to applicable Trustee approval requirements.

Among other duties, these Senior Executives will, subject to the supervision of the Board of Trustees, be responsible for: (i) engaging in strategic planning for the REIT; (ii) providing the Trustees and the Investment Committee with information and advice relating to financing strategies and the implementation of those strategies; (iii) overseeing the REIT's day-to-day activities; (iv) establishing, at least on an annual basis, investment and operating plans for the ensuing period; (v) supervising the due diligence required in connection with proposed acquisitions and overseeing any acquisitions or dispositions; (vi) monitoring the Manager; (vii) maintaining books and financial records of InnVest REIT; (viii) determining and preparing designations, elections and determinations to be made in connection with the income and capital gains of InnVest REIT for tax and accounting purposes; (ix) preparing reports and other information required to be sent to Unitholders and other disclosure documents; (x) calculating and determining all allocations; (xi) communicating with Unitholders and other persons, including investment dealers, lenders and professionals; and (xii) administering or supervising the administration on behalf of InnVest REIT of payment of Distributable Income and other distributions by InnVest REIT.

Additional services will be provided to the Operator by the Manager. See “— Master Hotel Management Agreement”.

## Employment Agreements

InnVest REIT will enter into employment agreements with each of the Senior Executives. The agreements contain salary, performance-based bonus and benefit commitments by the REIT and termination and severance provisions. The employment agreements also contain non-competition covenants in favour of the REIT.

The employment agreements with each of the Senior Executives are non-exclusive, permitting them to also be employed by and work for the Manager and the Westmont Group. Under their employment agreements, each of the Senior Executives is required to devote at least 50% of their time to managing the affairs of the REIT, subject to the right of the Independent Trustees, acting reasonably, to require that this proportion be increased or decreased with the approval of the Westmont Group, acting reasonably. The employment agreements provide that, if this proportion is increased or decreased for a Senior Executive, a proportionate adjustment to the salary, performance-based bonus and benefits payable by the REIT to the Senior Executive will be made. Each of the Manager and the Westmont Group has acknowledged that its employment arrangements with the Senior Executives are consistent with the executive's employment agreement with the REIT.

## Senior Executive Compensation

The table below sets forth information concerning the proposed annual and long-term compensation arrangements for services to be rendered from July 1 to December 31, 2002 in respect of each of the Senior Executives.

Name	Annual Compensation		Long-Term Compensation
	Salary <sup>(1)</sup>	Maximum Bonus Payable <sup>(2)</sup>	Phantom Units <sup>(3)</sup>
Kenneth D. Gibson <sup>(4)</sup>	\$180,000	\$ —	36,000
Tamara L. Lawson <sup>(4)</sup>	\$112,500	\$ —	22,500

(1) Annualized.

(2) To be determined following completion of the year ending December 31, 2002.

(3) To be granted under the Executive Incentive Plan at Closing, subject to a three-year vesting period. See “— Executive Incentive Plan”.

(4) Compensation paid by the REIT pursuant to the Senior Executives' employment agreements. The Senior Executives will initially be required to devote at least 50% of their time to managing the affairs of the REIT. See “— Employment Agreements”.

## **Executive Incentive Plan**

The Senior Executives will participate in the Executive Incentive Plan pursuant to which they will be granted phantom units from time to time. Phantom units will vest on a schedule to be determined by the Trustees. Each phantom unit will entitle the holder to receive a payment on the vesting date, payable in Units based on their then current market value, equal to the then current market value of one Unit plus the value of the cash distributions that would have been paid on one Unit if it had been issued on the date of grant of the phantom unit, assuming the reinvestment of these distributions in Units. The REIT has reserved a maximum of 1,000,000 Units for issuance under the Executive Incentive Plan, and any increase in this maximum or other amendment to the Executive Incentive Plan is subject to regulatory approval and Unitholder approval, if required.

## **Administrative Services Agreements**

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

The Administrative Services Agreements will have the same term as the Master Hotel Management Agreement. Each of the REIT and the Operator may terminate its respective Administrative Services Agreement if the Master Hotel Management Agreement is terminated. The aggregate fee to be paid to the Manager for the provision of the services under the Administrative Services Agreements for the twelve-month period ending June 30, 2003 is expected to be approximately \$700,000.

## **INVESTMENT GUIDELINES AND OPERATING POLICIES**

The following summary of the investment guidelines and operating policies of InnVest REIT contained in the Declaration of Trust is not complete. For a complete description, prospective investors should refer to the Declaration of Trust.

### **Investment Guidelines**

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

- (a) InnVest REIT will invest, directly or indirectly (including through corporations, limited partnerships, general partnerships (if permitted by changes in tax laws) or trusts), in interests in real property on which hotels are situated and the hotel businesses conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
- (b) notwithstanding any other provisions of the Declaration of Trust, InnVest REIT shall not make any investment, take any action or omit to take any action that would result in: (i) InnVest REIT not qualifying as a “unit trust” and a “mutual fund trust” for the purposes of the Tax Act; (ii) the Units being disqualified for investment by Deferred Income Plans; or (iii) the Units being foreign property for the purpose of the Tax Act;
- (c) InnVest REIT may invest in a joint venture arrangement with one or more third parties only if the assets owned by the joint venture and the activities of the joint venture otherwise comply with the investment guidelines and operating policies of InnVest REIT, and:
  - (i) the joint venture arrangement is one pursuant to which the REIT holds an interest in real property jointly or in common with others (“joint venturers”) either directly or through the ownership of securities of a corporation or other entity (a “joint venture entity”) as co-owner;
  - (ii) InnVest REIT’s interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first offer, if any, in favour of the joint venturers;
  - (iii) InnVest REIT has a right of first offer to buy the interests of the other joint venturers;

- (iv) the joint venture arrangement provides an appropriate buy-sell mechanism to enable a joint venturer to purchase the other joint venturer's interests or to sell its interest;
  - (v) the joint venture arrangement provides that the liability of the REIT to third parties is several and not joint and several, provided however that, subject to any remedies that each joint venturer may have against the other joint venturers, a joint venturer may be required to give up its interest in any particular property owned by the joint venture entity as a result of another joint venturer's failure to honour its proportionate share of the obligations relating to such property; and
  - (vi) the joint venture arrangement permits, but does not require, InnVest REIT or its designee to participate fully in the management thereof;
- provided, however, that the investment by InnVest REIT in Choice Canada shall be specifically excluded from these requirements;
- (d) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank maturing prior to one year from the date of purchase of such securities by InnVest REIT or in short-term commercial paper, notes, bonds or other debt securities of a Canadian corporation, trust or other entity maturing prior to one year from the date of issue and having a rating of at least R-1 (Mid) by Dominion Bond Rating Service or A-1 (Mid) by Standard & Poor's Corporation, InnVest REIT may not hold securities other than securities of a joint venture entity or an entity wholly-owned by InnVest REIT formed and operated solely for the purpose of holding a particular real property or real properties, holding and/or managing hotel operating assets or whose activities consist primarily of franchising hotels, and provided that, notwithstanding anything contained in the Declaration of Trust to the contrary, InnVest REIT may acquire securities of other real estate investment trusts;
  - (e) the REIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
  - (f) InnVest REIT shall not invest in raw land for development (or improved land with a view to demolishing the improvements) except for existing properties with additional development potential or properties adjacent to existing properties owned by InnVest REIT for the purpose of: (i) the renovation or expansion of existing facilities; or (ii) the development of new facilities that will be capital property of REIT;
  - (g) InnVest REIT may invest in mortgages and mortgage bonds (including, with the consent of a majority of the Trustees, a participating or convertible mortgage) where:
    - (i) the real property that is security therefor is income-producing real property which otherwise meets the investment guidelines of the REIT;
    - (ii) the amount of the mortgage loan is not in excess of 75% of the market value of the property securing the mortgage and the mortgage has at least a 1.2 times debt service coverage level, which is obtained by dividing operating income for the particular property by the total principal and interest payments under all mortgages of such property;
    - (iii) the mortgage is a first mortgage registered on title to the real property which is security therefor; and
    - (iv) the aggregate value of the investments of InnVest REIT in these mortgages, after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity calculated at the time of such investment;
  - (h) notwithstanding paragraph (g), InnVest REIT may invest in mortgages if an intention is to use the acquisition of the mortgages as a potential method of acquiring control of a real property or a portfolio of properties and the property or properties would otherwise meet the investment guidelines of the REIT and provided the aggregate value of the investments of InnVest REIT in these mortgages (including mortgage loans referred to in (i)), after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity calculated at the time of such investment;

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

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

### **Operating Policies**

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

- (a) InnVest REIT and its subsidiaries shall not purchase, sell, market or trade in currency or interest rate futures contracts other than for hedging purposes where, for the purposes hereof, the term “hedging” shall have the meaning ascribed thereto by National Instrument 81-102 adopted by the Canadian Securities Administrators, as amended from time to time;
- (b) (i) any written instrument creating an obligation which is, or includes the granting by InnVest REIT of, a mortgage; and (ii) to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation, shall in each case contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of InnVest REIT, but that only property of the REIT or a specific portion thereof shall be bound; provided that InnVest REIT is not required, but shall use reasonable efforts, to comply with this requirement in respect of obligations assumed by InnVest REIT upon the acquisition of real property;
- (c) InnVest REIT shall not lease or sublease to any person (except a wholly-owned subsidiary), any real property, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real property, premises or space having a fair market value net of encumbrances in excess of 5% of Adjusted Unitholders’ Equity;

- (d) except for renovation or expansion of existing facilities and the development of new facilities as permitted under paragraph (f) under the heading “Investment Guidelines and Operating Policies — Investment Guidelines”, InnVest REIT shall not engage in construction or development of real property except as necessary to maintain its real property in good repair or to enhance the income producing ability of properties in which the REIT has an interest;
- (e) title to each real property shall be held by and registered in the name of InnVest REIT, the Trustees or in the name of a corporation or other entity directly or indirectly wholly-owned by InnVest REIT or jointly owned by InnVest REIT with joint venturers;
- (f) the REIT shall not incur or assume any indebtedness under a mortgage or other security where (i) in the case of an individual property, the amount borrowed exceeds 75% of the market value of such individual property, or (ii) in the case of more than one property or a pool or portfolio of properties, the amount borrowed exceeds 75% of the market value of such properties on an aggregate basis, in either case, calculated at the time of assuming such indebtedness;
- (g) InnVest REIT shall not incur or assume any indebtedness (other than temporary indebtedness, if any, due to vendors of the initial Portfolio in connection with the initial acquisition transaction, non-interest bearing indebtedness and trade accounts payable) if, after giving effect to the incurrence or assumption of such indebtedness, the Financial Leverage Ratio would exceed 50% (60% including any convertible debentures of the REIT);
- (h) InnVest REIT shall not directly or indirectly guarantee any indebtedness or liabilities of any kind of a third party except indebtedness assumed or incurred under a mortgage by a corporation or other entity wholly-owned by InnVest REIT or jointly by InnVest REIT with joint venturers and operated solely for the purpose of holding a particular property or properties where such mortgage, if granted by InnVest REIT directly, would not cause InnVest REIT to otherwise contravene the restrictions set out under the heading “Investment Guidelines and Operating Policies”, and, where such mortgage is granted by a joint venture entity, subject to a joint venturer being required to give up its interest in a property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property, the liability of InnVest REIT is limited strictly to the proportion of the mortgage loan equal to the REIT’s proportionate ownership interest in the joint venture entity;
- (i) InnVest REIT shall obtain an independent valuation of each property that it intends to acquire from or sell to a Related Party;
- (j) InnVest REIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of InnVest REIT and the accidental loss of value of the assets of InnVest REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
- (k) InnVest REIT shall obtain or cause the Operator to obtain such physical and environmental reports as the Trustees consider advisable for each future hotel property to be acquired by it; and
- (l) InnVest REIT shall not issue additional Units (other than pursuant to the Vendor Convertible Debentures) unless the Trustees consider such issuances not to be dilutive to ensuing annual distributions of Distributable Income to existing Unitholders.

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

#### **Amendments to Investment Guidelines and Operating Policies**

Pursuant to the Declaration of Trust, all of the investment guidelines set out under the heading “Investment Guidelines and Operating Policies — Investment Guidelines” and the operating policies contained in subparagraphs (e), (f), (g), (h), (i) and (k) under the heading “Investment Guidelines and Operating Policies — Operating Policies” may be amended only with the approval of 66⅔% of the votes cast by Unitholders of

InnVest REIT at a meeting of Unitholders called for such purpose. The remaining operating policies may be amended with the approval of a majority of the votes cast by Unitholders at a meeting called for such purpose.

### **DISTRIBUTION POLICY**

The following summary of the distribution policy of InnVest REIT contained in the Declaration of Trust is not complete. For a complete description, prospective investors should refer to the Declaration of Trust.

#### **General**

InnVest REIT will distribute, to the extent possible, equal monthly cash distributions to Unitholders, on or about the 15<sup>th</sup> day of each month (with the January 15<sup>th</sup> distribution being payable as of the preceding December 31<sup>st</sup>), beginning in the second month following the month during which Closing occurs, constituting not less than 80% of the REIT's Distributable Income, based on the estimated Distributable Income for the calendar year. The REIT currently intends to distribute approximately 90% of its Distributable Income on an annual basis. If the Trustees determine that it would be in the best interests of InnVest REIT, they may reduce for any period the percentage of Distributable Income to be distributed to Unitholders. Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. This reserve will initially be set, and is expected to remain constant, at 4% of the REIT's gross revenues, except in 2008 and 2009 when management of the REIT anticipates increasing this reserve to 5.5% to fund planned additional refurbishments of significant capital items. Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Income for the prior periods is greater than or less than the Trustees' estimates for the prior periods. Unitholders will also be entitled to receive a cash distribution each year, paid on or about January 15<sup>th</sup> of the following year (being payable as of the preceding December 31<sup>st</sup>), of any excess of the income (including taxable capital gains, if any) of InnVest REIT for the purposes of the Tax Act (plus the non-taxable portion of capital gains, if any) for the year over distributions otherwise made for that year. The distributions for any month will be payable to the Unitholders of record at the close of business on the last business day of the month. Distributions shall be made in cash and may be reinvested in Units through the REIT's distribution reinvestment plan. See "— Distribution Reinvestment Plan".

Assuming that 90% of Distributable Income is distributed during the year ending June 30, 2003, cash distributions to Unitholders for that period based on the REIT's financial forecast are estimated to be approximately \$44.8 million in the aggregate. See "Financial Forecast".

The Portfolio is subject to variations in revenues, with revenues during the second and third calendar quarters being generally higher than those in the first and fourth quarters. As a result, it is anticipated that InnVest REIT will draw down on the Operating Facility during the first and fourth quarters in order to augment otherwise lower cash distributions to a point where cash distributions are as even as possible throughout the calendar year.

The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of Unitholders.

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

The Distributable Income of InnVest REIT will be calculated based on net income of InnVest 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.

## **Tax Deferral on Distributions**

The adjusted cost base of Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's Units would otherwise be a negative amount. See "Certain Canadian Federal Income Tax Considerations". The non-taxable portion of distributions for any year may be adjusted following any reassessment by the CCRA for that year.

Management of the REIT estimates that approximately 10% of the distributions forecast to be made during the period ending December 31, 2002 will not be currently taxable to a Unitholder and that this tax-deferred portion will increase to approximately 21% of the forecast distributions to be made in 2003 (assuming that there is no change in the level of distributions). The lower percentage of tax-deferred distributions in 2002 is due primarily to the seasonally higher level of revenues of the Portfolio forecast to be realized in the third calendar quarter, thereby resulting in a relatively higher proportion of taxable revenues being included for the six-month period ending December 31, 2002 than the average taxable revenues for a full 12-month year.

## **Distribution Reinvestment Plan**

Subject to receipt of all required regulatory approvals, a distribution reinvestment plan will be established after Closing to provide beneficial Unitholders who are residents of Canada with a method of reinvesting cash distributions in new Units. Unitholders who are not residents of Canada will not be eligible to participate in the plan.

The main features of the distribution reinvestment plan will be as follows:

- any Canadian resident beneficial holder of Units holding a minimum of 500 Units may join or opt out of the plan at any time;
- each participant will receive an additional bonus distribution of Units equal in value to 3% of each distribution that was reinvested by that participant;
- Units will be purchased monthly with reinvested cash distributions from InnVest REIT at prevailing market prices; and
- no brokerage fees will be payable by participants in connection with purchases of Units under the plan, and all administrative costs of the plan will be borne by InnVest REIT.

The only registered Unitholder will be CDS. As such, beneficial Unitholders (*i.e.*, individuals or entities who hold Units through a broker or other intermediary participating in the CDS system) will only be entitled to enroll in the plan through their CDS participant. Statements detailing the number of additional Units acquired through the distribution reinvestment plan will only be provided to beneficial Unitholders through their CDS participants.

Proceeds from the issuance of additional Units by InnVest REIT pursuant to the distribution reinvestment plan will be added to the working capital of the REIT.

The issuance of Units under the distribution reinvestment plan may not be exempt from the registration and prospectus requirements of relevant securities legislation in certain provinces of Canada. In addition, Units issued under the distribution reinvestment plan may not be freely tradable under the provisions of such legislation until InnVest REIT has been a reporting issuer for at least four months. As a result, the distribution reinvestment plan will not be available until at least four months after Closing.

## **DECLARATION OF TRUST AND DESCRIPTION OF UNITS**

The following summary of the terms of the Declaration of Trust and the Units is not complete. For a complete description, prospective investors should refer to the Declaration of Trust.

### **General**

InnVest REIT is an unincorporated open-ended real estate investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of Ontario.

## **Units**

An unlimited number of Units may be issued pursuant to the Declaration of Trust. Each Unit represents an equal undivided beneficial interest in any distributions from InnVest REIT, whether of net income, net realized capital gains or other amounts, and in the net assets of the REIT in the event of the termination or winding-up of InnVest REIT. All Units are of the same class with equal rights and privileges. Each Unit entitles the holder thereof to one vote for each whole Unit held at all meetings of Unitholders. The Whitehall Funds will initially be entitled to appoint two of the seven Trustees, and the Westmont Group will initially be entitled to appoint one Trustee. See “Management of InnVest REIT — Board of Trustees”.

## **Book-Based System**

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

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

The ability of a beneficial owner of an interest in a Unit represented by a global certificate to pledge the Unit or otherwise take action with respect to the holder’s interest in a Unit represented by a global certificate (other than through a CDS participant) may be limited due to the lack of a physical certificate.

## **Issuance of Units**

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

## **Purchases of Units**

InnVest REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

## **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 will be 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 InnVest REIT through CDS. Upon receipt of the redemption notice by InnVest 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” 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” on the principal market on which the Units are quoted for trading on the redemption date.

For the purposes of this calculation, “market price” will be an amount equal to the simple average of the closing price of the Units for each of the trading days on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the Units traded on a particular day, the “market price” shall be an amount equal to the simple average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the “market price” shall be the simple average of the following prices established for each of the 10 trading days: (i) the average of the last bid and last ask price of the Units for each day there was no trading; (ii) the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and (iii) the average of the highest and lowest prices of the Units for each day that there was trading if the market provides only the highest and lowest prices of Unit trades on a particular day. The “closing market price” shall be an amount equal to the closing price of the Units if there was a trade on the date and the exchange or market provides a closing price; an amount equal to the average of the highest and lowest prices of the Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; and the average of the last bid and last ask prices of the Units if there was no trading on that date.

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

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a distribution *in specie* of Notes issued by InnVest Properties. 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 InnVest REIT, and they would bear interest equal to the then current prime lending rate, as quoted by the provider of the Operating Facility, plus 1%.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. Notes of InnVest Properties which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such Notes, and they may be subject to resale restrictions under applicable securities laws. Notes of InnVest Properties distributed will generally be qualified investments for Deferred Income Plans and RESPs but may cease to be so qualified depending upon the circumstances. See “Certain Canadian Federal Income Tax Considerations”.

### **Meetings of Unitholders**

The Declaration of Trust provides that meetings of Unitholders must be called and held for the appointment or removal of Trustees (except for a nominee of the Whitehall Funds or the Westmont Group), the

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

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

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

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

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

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations from holders of Units as to whether such Units are held for the benefit of non-residents.

If the Trustees become aware that more than 49% of the Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of non-residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustees determine that a majority of the Units are held for the benefit of non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 60 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents and do not hold their Units for the benefit of non-residents within such period, the Trustees may sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights 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.

The Trustees have determined that, after accounting for the interests of the Whitehall Funds and Maple Leaf for the purposes of this test, as at Closing, no more than 11% of the outstanding Units can be beneficially-owned by non-residents.

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

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

The Trustees may, without the approval of the Unitholders, amend the Declaration of Trust prior to the Closing and, in addition, make certain amendments to the Declaration of Trust from time to time thereafter including amendments:

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

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

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

### **Takeover Bids**

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

### **Information and Reports**

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

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

## **NON-COMPETITION ARRANGEMENTS**

At or prior to Closing, the Whitehall Restricted Parties and the Westmont Restricted Parties will enter into Non-Competition Agreements with InnVest REIT to restrict certain of their acquisition activities in the Canadian limited service sector of the Canadian hotel market.

### **Scope of Restrictions**

The Non-Competition Agreements will prohibit the direct or indirect acquisition by the Whitehall Restricted Parties and the Westmont Restricted Parties of certain Canadian limited service hotel assets unless the opportunity to acquire such assets has first been offered to InnVest REIT in accordance with the agreements. The restriction applies to the acquisition by a Whitehall Restricted Party or a Westmont Restricted Party of: (i) individual limited service hotels located in Canada; (ii) portfolios of limited service hotels located in Canada; (iii) portfolios of real estate assets of which more than 50% of the annual revenues or more than \$25 million of the value is attributable to limited service hotels located in Canada; or (iv) more than a 10%

ownership interest in an entity which derives more than 50% of its annual revenues from the ownership and operation of limited service hotels located in Canada. The restriction applies only to limited service hotels in Canada that compete in the budget or economy sector of the hotel market.

### **Term of Restrictions**

The restrictions in the Non-Competition Agreements will apply to the Whitehall Restricted Parties until the 180<sup>th</sup> day after the Whitehall Restricted Parties no longer have or have renounced the right to have a representative serving as a Trustee. The restrictions in the Non-Competition Agreements will apply to the Westmont Restricted Parties until the 180<sup>th</sup> day after any of the Westmont Restricted Parties: (i) is no longer the Manager; and (ii) no longer has or has renounced the right to have a representative serving as a Trustee.

### **PLAN OF DISTRIBUTION**

Under the Underwriting Agreement with RBC Dominion Securities Inc., Goldman Sachs Canada Inc. CIBC World Markets Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc., and Raymond James Ltd., InnVest REIT has agreed to sell and the Underwriters have agreed, subject to conditions to purchase on July 26, 2002 or on such other date as may be agreed between the REIT and the Underwriters but, in any event, not later than August 30, 2002, the Offered Units at a price of \$10.00 per Offered Unit, payable in cash to InnVest REIT against delivery. The Underwriting Agreement provides that the REIT will pay to the Underwriters an aggregate fee of \$16,500,000, in respect of all of the Offered Units, or \$0.55 per Offered Unit, in consideration of their services in connection with this offering.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion on the basis of their assessment of the state of financial markets and also may be terminated on the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Units if any of such Offered Units are purchased under the Underwriting Agreement.

Prior to this offering, there was no market through which the Units could be sold. Accordingly, the offering price of the Offered Units was determined by negotiation between InnVest REIT, the Promoters and the Underwriters.

InnVest REIT has granted to the Underwriters an Over-Allotment Option exercisable for a period of 30 days after Closing to purchase an aggregate of up to 3,000,000 Units on the same terms as set out above solely to cover over-allotments, if any. InnVest REIT has agreed to pay to the Underwriters a fee of \$0.55 per Unit with respect to Units issued under the Over-Allotment Option. This prospectus qualifies the distribution of the Over-Allotment Option and the Units issuable upon the exercise thereof.

The REIT and the Promoters have agreed to indemnify the Underwriters against certain liabilities pursuant to the Underwriting Agreement, including liabilities under Canadian securities legislation.

InnVest REIT has agreed with the Underwriters that it will not, for the period ending 180 days from the date of Closing, offer, issue or sell any Units or financial instruments or any securities convertible into or exchangeable or exercisable for Units or agree to, or announce any such offer, sale or issuance (other than the Units offered hereby, Units issued pursuant to the Over-Allotment Option, Units issued pursuant to the exercise of conversion rights attaching to the Vendor Convertible Debentures, Units issued under the distribution reinvestment plan, Units issuable pursuant to the Executive Incentive Plan and Units issued to Trustees as compensation) without the prior consent of the Lead Underwriters.

The Whitehall Funds have agreed that neither they nor their respective affiliates or associates will, without the prior consent of the Lead Underwriters, offer, sell, contract to sell, grant or sell any option, right or warrant to purchase or otherwise dispose of any Units or Vendor Convertible Debentures or an economic interest therein for a period of 180 days from the date of Closing, except: (i) among themselves; (ii) to InnVest REIT or its affiliates; or (iii) as security for indebtedness owing to a financial institution and for sales in connection with the realization on such security. Maple Leaf has agreed that it will not, without the prior consent of the Lead Underwriters, offer, sell, contract to sell, grant or sell any option, right or warrant to purchase or otherwise dispose of any Units or an economic interest therein for a period of 180 days from the date of Closing, except: (i) to InnVest REIT or its affiliates; or (ii) as security for indebtedness owing to a financial institution and for sales in connection with the realization on such security.

This offering is being made in each of the provinces of Canada. The Units have not and will not be registered under the 1933 Act and, subject to certain exceptions, may not be offered or sold in the United States. The Underwriters have agreed that they will not offer or sell the Units within the United States of America, its territories, its possessions and other areas subject to its jurisdiction or to, or for the account or benefit of, a U.S. person (as defined in Regulation S under the 1933 Act), except in accordance with the Underwriting Agreement pursuant to an exemption from the registration requirements of the 1933 Act provided by Rule 144A thereunder and in compliance with applicable state securities laws. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell Units outside the United States in accordance with Regulation S. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the Units in the United States. In addition, until 40 days after the commencement of the offering of the Offered Units pursuant to this prospectus, an offer or sale of Offered Units within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the 1933 Act if such offer is made otherwise than in compliance with Rule 144A.

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. No certificate evidencing Units will be issued to purchasers, except in limited circumstances, and registration of ownership of Units will be effected only through the book-based system administered CDS. See “Declaration of Trust and Description of Units — Book-Based System”. A purchaser of Units will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom the Units are purchased.

Pursuant to the policy statements of the Ontario Securities Commission and the Commission des valeurs mobilières du Québec, the Underwriters may not, throughout the period of distribution, bid for or purchase Units. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Units. Such exceptions include a bid or purchase permitted under the by-laws and rules of the TSX relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. InnVest REIT has been advised that in connection with the offering and pursuant to the first-mentioned exception, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Units at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

One of the Underwriters, Goldman Sachs Canada Inc., is a wholly-owned subsidiary of GS Group. Subsidiaries of GS Group are the general partners of each of the Whitehall Funds, and GS Group has an ownership interest in each of the Whitehall Funds. Goldman Sachs & Co., an affiliate of GS Group, is the investment manager for each of the Whitehall Funds. A portion of the proceeds from this offering will be used to purchase the interests in certain assets of entities owned directly or indirectly by the Whitehall Funds. See “Use of Proceeds”. Whitehall XI will be the largest single holder of Units following Closing and is a promoter of InnVest REIT for the purposes of applicable Canadian securities legislation. See “Promoters and Principal Unitholders”. Accordingly, Goldman Sachs Canada Inc. may be considered to be a related issuer and a connected issuer of InnVest REIT for the purposes of applicable Canadian securities legislation. The terms of the offering of the Offered Units were negotiated at arm’s-length between the Underwriters, including RBC Dominion Securities Inc. (which is not a related issuer or a connected issuer of the REIT), the Promoters and InnVest REIT. RBC Dominion Securities Inc. participated in the drafting of this prospectus, the negotiation of the pricing of the Offered Units and the due diligence process in respect of this offering. Goldman Sachs Canada Inc. will not receive any benefit in connection with this offering other than as described in this prospectus.

This prospectus also qualifies the distribution of the Vendor Units to be issued to the Whitehall Funds, Maple Leaf and a Canadian chartered bank, and the Vendor Convertible Debentures to be issued to the Whitehall Funds at Closing. The price of the Vendor Units was determined by negotiation between InnVest REIT, the Whitehall Funds and Maple Leaf. The price and terms of the Vendor Convertible Debentures were determined by negotiation between InnVest REIT and the Whitehall Funds. The Vendor Units and Vendor Convertible Debentures have not been underwritten by the Underwriters, and no Underwriters’ fee will be payable in respect of the distribution of the Vendor Units or the Vendor Convertible Debentures. In connection with the issuance of the Vendor Units and the Vendor Convertible Debentures, InnVest REIT will enter into the

Registration Rights Agreement. See “Financing Arrangements — Vendor Convertible Debentures” and “Acquisition of the Portfolio”. See “Promoters and Principal Unitholders”.

### USE OF PROCEEDS

The estimated net proceeds to InnVest REIT from the sale of the Offered Units will be \$277,055,000 after deducting the Underwriters’ fee and the estimated expenses of this offering. The proceeds to the REIT from the sale of the Vendor Units and Vendor Convertible Debentures will be \$110,689,100 and \$75 million, respectively. If the Underwriters exercise their Over-Allotment Option in full, the net proceeds to InnVest REIT therefrom will be approximately \$28,350,000.

The net proceeds to InnVest REIT from this offering, together with the proceeds to InnVest REIT from the sale of the Vendor Units and the Vendor Convertible Debentures, will be used: (i) to acquire, directly and indirectly, the Portfolio net of debt assumed and a 50% interest in Choice Canada and related assets (approximately \$430,000,000); (ii) to pay land transfer taxes and other transfer taxes and acquisition expenses relating to the transfer of the Portfolio (approximately \$6,700,000); and (iii) to repay certain assumed indebtedness (approximately \$12,000,000); and (iv) for working capital and the general purposes of InnVest REIT. The net proceeds to InnVest REIT, if any, from the sale of Units pursuant to the Over-Allotment Option will be used to repurchase that number of Units from the Whitehall Funds.

### CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to InnVest 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 Offered Units by a Unitholder who acquires Offered Units pursuant to this offering. This summary is applicable to a Unitholder who, for purposes of the Tax Act, is resident in Canada, deals at arm’s-length with InnVest REIT and holds the Offered Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided that the Unitholder does not hold the Units 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 Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such Unitholders should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to a Unitholder that is a “financial institution”, as defined in the Tax Act for purposes of the mark-to-market rules, or a “specified financial institution” as defined in the Tax Act. Such Unitholders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of Offered Units acquired pursuant to this offering.

This summary is based upon the facts set out in this prospectus, the current provisions of the Tax Act and the Regulations and counsel’s understanding, based on publicly available published materials, of the current administrative and assessing practices of the CCRA, all in effect as of the date of this prospectus. This summary takes into account 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 CCRA 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 Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the Unitholder’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 Units. Consequently, a prospective Unitholder should consult the holder’s own tax advisor for advice with respect to the tax consequences of an investment in Units based on the prospective Unitholder’s particular circumstances.**

## **Status of InnVest REIT**

### ***Mutual Fund Trust***

InnVest REIT currently qualifies as a “unit trust” as defined in the Tax Act. This summary assumes that InnVest REIT (i) will qualify as a “mutual fund trust” as defined in the Tax Act on completion of the offering, and will thereafter continuously qualify as a mutual fund trust; (ii) will be able to elect and will elect to be deemed to be a mutual fund trust from the date it is established; and (iii) is not established or maintained primarily for the benefit of non-residents. Counsel is of the view that it is reasonable in light, *inter alia*, of the terms of the Declaration of Trust and the restrictions on the ownership of Units by non-resident persons which are contained in the Declaration of Trust to assume that InnVest REIT is not established and will not be maintained primarily for the benefit of non-residents.

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

### ***Qualified Investment***

Provided InnVest REIT is a mutual fund trust within the meaning of the Tax Act and the Units are listed on a prescribed stock exchange in Canada, the Units and the Notes received upon the redemption of Units will be qualified investments for Deferred Income Plans and RESPs. If InnVest REIT ceases to qualify as a mutual fund trust, the Units will cease to be qualified investments for Deferred Income Plans and RESPs. If InnVest REIT ceases to qualify as a mutual fund trust or if the Units are not listed on a prescribed stock exchange in Canada, the Notes will cease to be qualified investments for Deferred Income Plans and RESPs.

### ***Foreign Property***

Based on representations of InnVest REIT as to its proposed activities, counsel is of the opinion that the Units at the date of Closing will not constitute foreign property for Deferred Income Plans, registered pension plans or other persons subject to tax under Part XI of the Tax Act. RESPs are not liable for such tax.

## **Taxation of InnVest REIT**

The taxation year of InnVest REIT is the calendar year. In each taxation year, InnVest 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 Unitholders. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid to the Unitholder in the year by InnVest REIT or if the Unitholder is entitled in that year to enforce payment of the amount.

The income for purposes of the Tax Act of InnVest REIT will include: rents receivable by it from the Operator; interest receivable by it from subsidiaries; dividends received from subsidiaries; any taxable capital gains or recapture of capital cost allowance arising from dispositions by it of properties in the Portfolio; and income that is allocated to it on its Operator Class A Units.

In computing its income for purposes of the Tax Act, InnVest REIT may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. The REIT may also deduct from its income for the year a portion of the expenses incurred by it to issue Units pursuant to this offering. The portion of the issue expenses deductible by InnVest REIT in a taxation year is 20% of those issue expenses, pro-rated where InnVest REIT's taxation year is less than 365 days.

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

In the event InnVest 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 InnVest 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 InnVest REIT as a result of such redemption may be allocated to the Unitholders redeeming their Units. The taxable portion of such capital gains must be included in the income of the redeeming Unitholder.

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 InnVest REIT qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year. InnVest REIT has indicated that it will file on a timely basis an election to be deemed to have been a mutual fund trust throughout its first taxation year ending on December 31, 2002.

## **Taxation of Unitholders**

### *Trust Distributions*

A Unitholder will generally be required to include in income for a particular taxation year the portion of the net income of InnVest REIT for a taxation year, including net realized taxable capital gains, that is paid or payable to the Unitholder in the particular taxation year, whether or not those amounts are reinvested in additional Units pursuant to the REIT’s distribution reinvestment plan.

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

The Declaration of Trust generally requires InnVest REIT to claim the maximum amount of capital cost allowance available to it in computing its income for tax purposes. Based on the distribution policy, the amount distributed to Unitholders in a year may exceed the income of InnVest REIT for tax purposes for that year. Distributions in excess of InnVest REIT’s taxable income in a year, including the 3% additional bonus distribution of Units acquired pursuant to the distribution reinvestment plan, will not generally be included in the Unitholder’s income for the year. However, such amount will reduce the adjusted cost base of the Units held by the Unitholder and the Unitholder will realize a capital gain in the year to the extent the adjusted cost base of the Units would otherwise be a negative amount.

InnVest REIT will designate, to the extent permitted by the Tax Act, the portion of the taxable income distributed to Unitholders as may reasonably be considered to consist of net taxable capital gains of InnVest REIT. Any such designated amount will be deemed for tax purposes to be received by Unitholders in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. InnVest REIT will also designate, to the extent permitted by the Tax Act the portion of taxable dividends received by the REIT from subsidiaries as may reasonably be considered to be an amount included in the income of Unitholders. Any such designated amount will be deemed for purposes of the Tax Act, other than non-resident withholding purposes, to be received by the Unitholders as a taxable dividend and will be subject to the general rules regarding the taxation of taxable dividends paid by taxable Canadian corporations.

The cost of Units acquired by reinvestment of distributions pursuant to the 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 distribution reinvestment plan will result in a per Unit reduction of adjusted cost base to the holder.

### *Purchasers of Units*

Since the net income of InnVest REIT will be distributed on a monthly basis, a purchaser of a Unit may become taxable on a portion of the net income of InnVest REIT accrued or realized by InnVest REIT in a month before the time the Unit was purchased but which was not paid or made payable to Unitholders until the end of the month and after the time the Unit was purchased. A similar result may apply on an annual basis in respect of a portion of capital gains accrued or realized by InnVest REIT in a year before the time the Unit was purchased but which is paid or made payable to Unitholders at year end and after the time the Unit was purchased. When such amounts are paid by InnVest REIT, they generally must be included in computing the income of the Unitholder for tax purposes.

### *Dispositions of Units*

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the 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 Unitholder's income. Where a Unitholder that is a corporation or trust (other than a mutual fund trust) disposes of a Unit, the Unitholder's capital loss from the disposition will generally be reduced by the amount of any dividends received by InnVest REIT previously designated by InnVest REIT to the Unitholder, except to the extent that a loss on a previous disposition of a Unit has been reduced by those dividends. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units.

For the purpose of determining the adjusted cost base to a Unitholder of Units, when a Unit is acquired, whether as a Unit acquired pursuant to the distribution reinvestment plan or otherwise, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property immediately before that time.

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

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

### *Capital Gains and Capital Losses*

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

### *Alternative Minimum Tax*

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

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Brian C. Collyer and Lauren J. Zucker, who are Trustees, are Vice-Presidents of Goldman, Sachs & Co. Affiliates of Goldman, Sachs & Co. are the general partners of each of the Whitehall Funds, and an affiliate of Goldman, Sachs & Co. has an ownership interest in each of the Whitehall Funds. Majid Mangalji, who is Chair of the Board of Trustees, is President of the Westmont Group. Kenneth D. Gibson, who is President and Chief Executive Officer of InnVest REIT, and Tamara L. Lawson, who is Chief Financial Officer and Secretary of InnVest REIT, are Chief Operating Officer and Chief Financial Officer of the Manager, respectively. The Whitehall Funds and Westmont Holdings are the current indirect owners of the Portfolio and the 50% interest in Choice Canada and will receive a portion of the proceeds of this offering in connection with transactions described under "Acquisition of the Portfolio". The Whitehall Funds and Maple Leaf will be parties to the

Registration Rights Agreement. See “Acquisition of the Portfolio”. The Manager is also a party to, and will receive fees and expense reimbursements under, the Master Hotel Management Agreement, and will be a party to, and receive expense reimbursements under, the Administrative Services Agreements. See “Management of InnVest REIT — Master Hotel Management Agreement” and “Management of InnVest REIT — Administrative Services Agreements”.

## FORWARD-LOOKING STATEMENTS

This prospectus includes certain statements that are “forward-looking statements”. All statements, other than statements of historical fact, in this prospectus that address activities, events or developments that InnVest REIT, its management or a third party expects or anticipates will or may occur in the future, including the REIT’s future growth, results of operations, performance and business prospects and opportunities, are forward-looking statements. These forward-looking statements reflect the current beliefs of management of the REIT and are based on information currently available to the REIT. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of significant risks and uncertainties, including those discussed under “Risk Factors” and elsewhere in this prospectus. Certain of these risk factors are beyond the control of the REIT. Consequently, all of the forward-looking statements made in this prospectus are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, InnVest REIT. These forward-looking statements are made as of the date of this prospectus and the REIT assumes no obligation to update or revise them.

## RISK FACTORS

*Investing in the Offered Units involves a degree of risk. In addition to the other information contained in this prospectus, prospective investors should carefully consider the risk factors set out below in making an investment decision with respect to the REIT and the Offered Units.*

### Real Estate Investment Risks

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

Real estate investments are relatively illiquid. There can be no assurance that the REIT will be able to dispose of an investment when it finds disposition advantageous or necessary or that the sale price of any disposition will recoup or exceed the amount of the REIT’s investment. The ability of the REIT to vary its real estate portfolio in response to changes in economic and other conditions will be limited. If the REIT were

required to liquidate its real property investments, the proceeds to it might be significantly less than the aggregate carrying value of its properties.

### **Hotel Industry Risks**

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

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

### **Competition**

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

The Whitehall Funds and the Westmont Group will continue to own hotels and subject to the non-competition arrangements relating to the acquisition of limited service hotels in Canada competing in the budget or economy sector of the hotel market described under “Non-Competition Arrangements”, may, in certain circumstances, acquire additional hotels, including limited service hotels, that compete with properties in InnVest REIT. An affiliate of the Manager also currently manages approximately 40 hotels in Canada that will not be included in the Portfolio, and the Westmont Group may manage additional hotels not owned by InnVest REIT, including limited service hotels. These managed properties may also compete with properties owned by InnVest REIT.

### **Investment Concentration in the Limited Service Hotel Sector**

InnVest REIT will primarily own interests in Canadian limited service hotel properties. The REIT will not seek to invest in assets selected to reduce the risks associated with an investment in limited service hotel real estate, and will be subject to risks inherent investing in a single sector of a market.

## **Seasonality of Hotel Business**

The Canadian hotel industry is seasonal in nature. Generally, hotel revenues are greater in the second and third quarters than in the first and fourth quarters. This seasonality can be expected to cause quarterly fluctuations in the revenues of InnVest REIT. It is anticipated that the REIT will borrow funds under the Operating Facility during the first and fourth quarters in order to augment otherwise lower cash distributions to Unitholders.

## **Acquisition Strategy Risks**

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

## **Availability of Cash Flow**

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

## **Cash Distributions Are Not Guaranteed and May Fluctuate with InnVest REIT’s Performance**

Although InnVest REIT intends, to the extent possible, to make equal monthly cash distributions to the Unitholders, such cash distributions are not guaranteed and may fluctuate with its performance. The REIT depends on revenue generated from the Portfolio to make such distributions. There can be no assurance regarding the amount of revenue generated by the Portfolio. The amount of Distributable Income will depend upon numerous factors, including the profitability of the Portfolio, fluctuations in working capital, interest rates, capital expenditures, and other factors which may be beyond the control of the REIT. If the Trustees determine that it would be in the best interests of the REIT, they may reduce for any period the percentage of Distributable Income to be distributed to the Unitholders.

## **Borrowing Risks**

After giving effect to the completion of this offering, the use of proceeds described under “Use of Proceeds” and the completion of the transactions described under “Financing Arrangements”, InnVest REIT will have approximately \$320 million of indebtedness, representing a Financial Leverage Ratio of approximately 40%. The REIT will be subject to the risks associated with debt financing, including the risks that cash flow from operations will be insufficient to meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that terms of such refinancings will not be as favourable to the REIT and the risk that necessary capital expenditures for such purposes as renovations and other improvements will not be able to be financed on favourable terms or at all. In such circumstances, if the REIT were in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing on unfavourable terms. In addition, the REIT will be subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of the REIT and its ability to make distributions. The REIT’s financing arrangements are expected to contain covenants, including a covenant that the lender under the Term Credit Facility shall have the right to approve any change of the hotel manager for the relevant Hotel Properties, covenants restricting transfers of the relevant Hotel Properties, including transfers from the REIT’s subsidiaries

to the REIT, and covenants restricting the REIT's ability to sell the Operator or InnVest Properties and covenants to provide cash reserves for major capital expenditures from time to time. Future financing agreements may contain similar, or more restrictive, provisions and covenants. If the REIT fails to comply with the restrictions in current or future financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross-default or cross-acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against the REIT. Credit facilities typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met.

The REIT, the Operator and InnVest Properties have granted or will grant security interests over substantially all of their assets to secure indebtedness owing under the Existing Mortgages and the New Credit Facilities. If the REIT is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

### **Availability of Additional Capital**

The acquisition of hotels, as well as ongoing renovations, refurbishment and improvements required to maintain and operate new and existing properties, are capital intensive. Because InnVest REIT expects to distribute to Unitholders substantially all of its operating cash flow, it will be required to fund these activities principally by issuing additional Units or incurring additional indebtedness. Access to capital markets for additional Unit financings and the availability of additional borrowing will depend on prevailing market conditions and the acceptability of the terms offered. In addition, the Declaration of Trust prohibits the REIT from incurring or assuming any indebtedness if it would result in the Financial Leverage Ratio exceeding 50% (60% including convertible debentures). There can be no assurance that the REIT will be able to complete additional Unit financings or borrow additional funds on terms acceptable to it, or at all. If the REIT were unable to secure additional funding for acquisitions or required improvements, it would be required to curtail these activities, which could have a material adverse effect on its results of operations and financial condition.

### **Franchised Hotels**

Each of the hotels in the Portfolio is subject to a franchise agreement, and hotels in which InnVest REIT invests subsequently may also be operated under franchise agreements. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Such standards are often subject to change over time, in some cases at the discretion of the franchisor, and may restrict a franchisee's ability to make improvements or modifications to a hotel property without the consent of the franchisor. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a hotel in the Portfolio to conform to such standards or of the REIT, or of the Operator to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement and potential liquidated damages. In a large portfolio, it is typical that, each year, several hotels will fail to pass such inspections. From time to time, hotels in the Portfolio have not passed an inspection but have subsequently passed re-inspections upon compliance with noted deficiencies. It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Trustees determine are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Trustees may elect to allow the franchise agreement to lapse. If a franchise were terminated, the REIT and the Operator would generally seek to obtain a suitable replacement franchise. However, there can be no assurance that the REIT and the Operator would be able to obtain a suitable replacement franchise on acceptable terms or at all. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

Ninety-eight of the hotels in the Portfolio are operated under Choice Flags. Despite its 50% ownership of Choice Canada, under Choice Canada's master franchise agreement with Choice International, the Choice-branded hotels in the Portfolio are required to operate to standards determined by Choice Canada, and representatives of Choice Canada must approve any hotel to be reflagged under a Choice flag. The REIT will be subject to risks related to the concentration in the Portfolio of hotels operating under the Choice flags, including

the risk of a reduction in hotel revenue following any adverse publicity related to the Choice flags, which could have a material adverse effect on the REIT's results of operations and financial condition.

The shareholders' agreement for Choice Canada prohibits affiliates (within the meaning of the *Business Corporations Act* (Ontario)) of the REIT's subsidiary that is shareholder in Choice Canada from operating a number of hotels under flags that compete with the Choice flags exceeding 20% of the total number of hotels operating under franchise from Choice Canada from time to time (this 20% limit is currently equivalent to approximately 50 hotels). At Closing, the Operator will operate 16 hotels under such competing flags. While the REIT believes, based on the advice of counsel to the REIT, that this restriction in the Choice Canada shareholders' agreement does not apply to the Operator as it will not constitute an affiliate under that definition, if the restriction were determined to apply it could restrict the REIT's ability to acquire additional hotels under competing flags in excess of the specified limit. In addition, the termination of the shareholders' agreement would have a material adverse effect on the REIT.

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

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

### **Potential Labour Disruptions**

A significant number of the employees employed at the hotels in the Portfolio are unionized and governed by collective agreements. Individual hotels have experienced, and may in the future experience, labour disruptions or difficulties which could affect the short-term operating performance of particular hotels. Relations with employees could deteriorate due to disputes related to, among other things, wage or benefit levels or the REIT's response to changes in government regulation of workers in the workplace. Hotel operations rely heavily on employees. Any labour shortage or stoppage caused by disagreements with employees, including unionized employees, could adversely affect the ability of the REIT's hotels to operate and could result in the temporary closure of particular hotels, the reduction of occupancy and room revenue or damage to the REIT's reputation. Any such labour difficulties could have a material adverse effect on the REIT's results of operations, business, prospects and financial condition.

### **Environmental Risks**

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

In connection with the REIT's acquisition of the Portfolio, Phase I environmental site assessments and, where appropriate, Phase II environmental site assessments were completed in respect of each of the Hotel Properties. The Phase I environmental site assessments were conducted to identify actual or potential site contamination and non-compliance with environmental laws and regulations based on a review of available historical and current records, interviews with available site personnel and a visual inspection of each property. The completed Phase II environmental site assessments involved intrusive investigations, such as soil or water sampling and analyses. These assessments included, in some instances, asbestos sampling and preliminary site-specific risk assessments. Based on the results of these assessments, the REIT believes that the Hotel Properties are operated in substantial compliance with all material environmental laws and regulations and that the current

estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions will not have a material adverse effect on InnVest REIT's results of operations, business, prospects and financial condition. There can be no assurance that such assessments have identified all material environmental contamination or hazardous or toxic substances or violations of environmental laws or regulations. Further, the costs involved in remediating contaminated property can be difficult to estimate and could exceed current estimated amounts.

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

### **Acquisition Risks**

InnVest REIT is purchasing the Portfolio from affiliates of the Promoters. The Portfolio is subject to the risks of acquisition. InnVest REIT will hold a number of the hotels within the Portfolio indirectly through its ownership of InnVest Properties, which in turn will hold some of these hotels indirectly. InnVest Properties will be a company resulting from numerous amalgamations and reorganizations. It is possible that entities within the InnVest Properties structure may be subject to unknown or undisclosed liabilities which could have a material adverse impact on the results of operations and financial condition of the REIT. Representations and warranties obtained by the REIT may not adequately protect against such liabilities or recourse against the sellers may be limited by the financial capacity of the sellers.

### **Uninsured and Underinsured Losses**

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

### **Reliance on Key Personnel**

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

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

The Manager will provide hotel management services to the Operator and its subsidiary partnerships. The REIT will be dependent on the Manager with respect to the management and the operation of the hotels in the Portfolio. Under the Master Hotel Management Agreement, the Manager will agree that it will not sell or assign the Master Hotel Management Agreement, and that there will be no change of control of the Manager during the first two years of the initial term. Thereafter, the Westmont Group may sell the Manager or sell or assign the Master Hotel Management Agreement subject, in each case, to the approval of not less than 66⅔% of the Independent Trustees, which shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all necessary third party consents and other approvals have been obtained without adverse consequence to the REIT. The Manager may terminate the agreement, generally on six months' notice, after the first five years of the initial term of the Agreement. There can be no assurance that if the Manager were to terminate the Master Hotel Management Agreement a suitable replacement would be found.

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

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

## **Potential Conflicts of Interest**

The REIT has been established to purchase, directly and indirectly, the Portfolio. The Independent Trustees have not received independent advice pertaining to the agreements that are to be entered into by the REIT, the Manager and the promoters in connection with the purchase of the Portfolio and this offering. In addition, InnVest REIT may be subject to various conflicts of interest because of the fact that the Manager and its respective directors, officers and associates, as well as the Trustees, are engaged in a wide range of business activities, including hotel management, acquisition and ownership. Additionally, certain Trustees are officers and directors of entities that are a part of the Westmont Group which could give rise to conflicts of interest. The REIT may become involved in transactions which conflict with the interests of the foregoing. The Trustees, the officers of the REIT and associates or affiliates of the Manager may from time to time deal with persons, firms, institutions or corporations with which the REIT may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the REIT. In addition, from time to time, these persons may be competing with the REIT for available investment opportunities. The Declaration of Trust contains provisions to address these potential conflicts of interest. See "Management of InnVest REIT — Conflict of Interest Restrictions and Provisions" and "Management of InnVest REIT — Independent Trustee Matters".

## **Tax-Related Risks**

The extent to which distributions will be tax deferred in the future will depend on the extent that InnVest REIT can shelter its taxable income by claiming capital cost allowances and other available deductions. InnVest Properties is a taxable Canadian corporation. The extent to which InnVest Properties will be able to shelter its taxable income will depend on the extent to which it can claim capital cost allowances, interest and other available deductions. In addition, many of the hotels that are retained by InnVest Properties will have a

low cost amount for Canadian income tax purposes with the consequence that their sale likely would give rise to a gain for income tax purposes even if the sale price did not exceed their value on the date of this offering. As a result, disposing of these properties may be unattractive to the REIT, even if the Trustees were to determine that the disposition would otherwise be in the best interests of the REIT.

There can be no assurance that the laws and regulations and the administrative and assessing practices of the CCRA respecting the treatment of mutual fund trusts or the deductibility of interest will not be changed in a manner which adversely affects Unitholders. If the REIT ceases to qualify as a mutual fund trust under the Tax Act, the Units will cease to be qualified investments for Deferred Income Plans and RESPs.

The REIT will endeavour to ensure that the Units continue to be qualified investments for Deferred Income Plans and RESPs. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and there is no assurance that the conditions prescribed for such qualified or eligible investments will be adhered to at any particular time. See “Eligibility for Investment” and “Certain Canadian Federal Income Tax Considerations”.

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

Holders of the Vendor Convertible Debentures may redeem debentures at a redemption price of 101% in the event of a change of control of the REIT. Further, the Manager has a right in certain circumstances to terminate the Master Hotel Management Agreement in the event of a change of control, in which circumstances it would receive a fee equal to the base fee and incentive fee under such agreement for the preceding 12 months. The existence of these provisions may make the REIT less attractive as an acquisition candidate.

### **Absence of Prior Public Market**

Prior to this offering there has been no public market for the Units. The offering price of the Offered Units has been determined by negotiation between InnVest REIT and the Underwriters based on several factors and may bear no relationship to the price at which the Units will trade in the public market subsequent to the completion of this offering.

A publicly-traded real estate investment trust will not necessarily trade at values determined by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a discount or premium to the values implied by the Valuation. 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. 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.

### **Effect of Interest Rates on Price of Units**

One of the factors that may influence the price of the Units in public trading markets will be the annual yield on the Units as compared to the annual yield on other financial instruments. An increase in market interest rates may lead potential purchasers of Units to demand a higher annual yield, which could adversely affect the market price of the Units.

### **Future Sales of Securities of the REIT by the Whitehall Funds and Maple Leaf**

Upon the completion of this offering, 41,068,910 Units will be outstanding (48,045,654 Units after giving effect to the conversion of the Vendor Convertible Debentures). The Whitehall Funds will collectively own 9.7% of the Units (22.8% of the Units after giving effect to the conversion of all of the Vendor Convertible Debentures) and Maple Leaf will own 7.5% of the Units (6.4% of the Units after giving effect to the conversion of all of the Vendor Convertible Debentures). The Whitehall Funds have agreed that neither they nor their respective affiliates or associates will, and Maple Leaf has agreed that it will not, without the prior consent of the Lead Underwriters, sell or otherwise dispose of any Units or Vendor Convertible Debentures for a period of 180 days from the date of Closing, subject to certain exceptions. Upon the expiration of this lock-up period, all

of the currently outstanding Units will be eligible for sale in the public market (including pursuant to the Registration Rights Agreement), subject to any applicable restrictions under securities laws.

After the expiration of the lock-up period, or prior to the expiration of the lock-up period with the consent of the Lead Underwriters, the Whitehall Funds and Maple Leaf may sell any or all of the securities of the REIT owned by them. There is no assurance that the Whitehall Funds and Maple Leaf will not dispose of the securities of the REIT owned by them or that the strategic relationships between the REIT, and the Whitehall Funds and the Westmont Group will be maintained in the future.

In addition, upon completion of this offering a Canadian chartered bank will own 9.7% of the outstanding Units (8.3% of the Units after giving effect to the conversion of all of the Vendor Convertible Debentures). These Units will be eligible for sale in the public market at any time, subject to any applicable restrictions under securities laws.

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

### **Redemption Right**

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

### **Nature of Units**

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

### **Possibility of Unitholder Liability**

Recourse for any liability of InnVest REIT is intended to be limited to its assets. The Declaration of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder acts as Trustee or carrier (an "annuitant") will be held to have any personal liability as such, and that no resort shall be had to the private property of any Unitholder or annuitant to satisfy any obligation or claim arising out of or in connection with any contract, obligation or liability of the REIT or of the Trustees.

Because of uncertainties in the law relating to investment trusts, there is a risk (which is considered by counsel to be remote in the circumstances) that a Unitholder or annuitant could be held personally liable for obligations of the REIT (to the extent that claims are not satisfied by the REIT) in respect of contracts that the REIT enters into and for certain liabilities arising other than out of contract including claims in tort, claims for taxes, and possibly certain other statutory liabilities. The Trustees intend to cause the REIT's operations to be conducted in such a way as to minimize any such risk, including by obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of the REIT contain an express disavowal of liability against the Unitholders (which in the opinion of the REIT's counsel will be effective). However, in conducting its affairs, the REIT will be acquiring real property investments, which may be subject to existing contractual obligations, including under leases. The REIT will use reasonable efforts to have any of these obligations modified so as not to be binding on any of the Unitholders or annuitants personally. However, the REIT may not be able to modify the obligations in all cases. InnVest REIT will use reasonable efforts to ensure that any consents required for the transactions described under "Acquisition of the Portfolio" and the New Credit Facilities include an acknowledgement to the effect that these obligations will not be binding on Unitholders. The REIT may not be able to obtain these acknowledgements in all cases.

## **Dilution**

The number of Units the REIT is authorized to issue is unlimited. The Trustees have the discretion to issue additional Units. Any issuance of Units may have a dilutive effect on the purchasers of Units under this offering.

## **Financial Forecast**

The forecast results contained in this prospectus were prepared using assumptions that reflect the REIT's management's intended course for the periods covered, given the judgment of management of the REIT as to the most probable set of economic conditions. Significant assumptions reflected in the forecast include assumptions regarding: working capital balances, increases in hotel revenues, future operating costs as a function of revenues based on historical relationships, interest rates, administrative expenses, franchise business income based on expected trends, tax treatment of income, future capital expenditure requirements and the absence of material adverse changes in economic conditions or legislation. There can be no assurance that these assumptions will prove to be accurate. Actual results for the forecast period will vary from the forecast results and variations may be material. There is no representation by InnVest REIT that actual results achieved during the forecast period will be the same, in whole or in part, as those forecasted herein.

## **LEGAL PROCEEDINGS**

Concurrently with Closing, InnVest REIT will indirectly acquire all of the outstanding shares of InnVest Properties and will directly acquire certain of the assets of InnVest Properties. InnVest Properties' predecessor W-Westmont and its subsidiaries are named as parties to various legal proceedings. None of InnVest REIT, InnVest Properties or any of the subsidiaries of InnVest Properties to be indirectly acquired by InnVest REIT concurrently with Closing is involved in any litigation or proceedings known to InnVest REIT's management to be material to the REIT either individually or in the aggregate.

## **MATERIAL CONTRACTS**

The following are the only material contracts, other than contracts entered into in the ordinary course of business, entered into by InnVest REIT during the past two years or to which it will become a party at or prior to Closing:

- (i) the purchase agreements dated as of the date of Closing between InnVest REIT, the Operator, affiliates of the Whitehall Funds, Westmont Holdings and InnVest Properties and certain of its subsidiaries relating to the transactions described under "Acquisition of the Portfolio";
- (ii) the Trust Indenture described under "Financing Arrangements — Vendor Convertible Debentures";
- (iii) the Registration Rights Agreement described under "Financing Arrangements — Vendor Convertible Debentures";
- (iv) the Master Hotel Management Agreement described under "Management of InnVest REIT — Master Hotel Management Agreement";
- (v) the Declaration of Trust described under "Declaration of Trust and Description of Units";
- (vi) the Non-Competition Agreements described under "Non-Competition Arrangements"; and
- (vii) the Underwriting Agreement described under "Plan of Distribution".

Copies of the foregoing documents and the Valuation may be inspected during ordinary business hours at the head office of InnVest REIT during the period of distribution of the Offered Units and for a period of 30 days thereafter.

## **PROMOTERS AND PRINCIPAL UNITHOLDERS**

Whitehall XI, Maple Leaf and Maple Leaf Investments, L.P. have taken the initiative in founding and organizing InnVest REIT and may therefore be considered to be promoters of the REIT for the purposes of applicable securities legislation. Maple Leaf and Maple Leaf Investments, L.P. are part of the Westmont Group.

Majid Mangalji, Chair of the Board of Trustees of the REIT and President of the Westmont Group, was a director and officer of Cincy Hospitality, Inc. and Mission Hospitality, Inc., when those companies entered into a pre-packaged settlement with the sole secured creditor through a filing under U.S. insolvency laws in 1993.

Upon the completion of this offering and the issuance of the Vendor Units and the Vendor Convertible Debentures, Whitehall XI will own 3,129,852 Units and \$66.9 million aggregate principal amount of Vendor Convertible Debentures, representing approximately 7.6% of the outstanding Units (19.5% of the outstanding Units after giving effect to the conversion of all of the Vendor Convertible Debentures). The Whitehall Funds, including Whitehall XI, collectively will own 3,990,203 Units and all of the Vendor Convertible Debentures, representing approximately 9.7% of the outstanding Units (22.8% after giving effect to the conversion of all of the Vendor Convertible Debentures). If the Over-Allotment Option is exercised in full, the Whitehall Funds will collectively own 990,203 Units, representing 2.4% of the outstanding Units (16.6% after giving effect to the conversion of all of the Vendor Convertible Debentures). On the date of Closing, Whitehall XI will enter into a three-year total return swap agreement with a Canadian chartered bank that will subscribe for 4,000,000 Vendor Units at Closing. Under the agreement, the bank has agreed to pay to Whitehall XI an amount equal to all cash distributions paid by InnVest REIT on an initial aggregate notional amount of 4,000,000 Units in exchange for a floating-rate interest factor paid by Whitehall XI. While the bank may (but is not obligated to) hold the Vendor Units issued to it at Closing to hedge its payment obligation under the swap agreement, Whitehall XI will not have any right to acquire or vote, nor will it exercise control or direction over, any Vendor Units owned by the bank, and Whitehall XI disclaims any beneficial ownership of such Vendor Units.

Subsidiaries of GS Group are the general partners of each of the Whitehall Funds, and GS Group has an ownership interest in each of the Whitehall Funds. Goldman, Sachs & Co., an affiliate of GS Group, is the investment manager for each of the Whitehall Funds. Goldman, Sachs & Co. is a subsidiary of GS Group. InnVest REIT is not aware of any other Unitholder that will own, directly or indirectly, or exercise control or direction over more than 10% of the outstanding Units upon the completion of this offering.

#### **PRIOR ISSUANCES**

On January 1, 2002, InnVest REIT issued one Unit for a total subscription price of \$10 to an associate of Davies Ward Phillips & Vineberg LLP. On March 8 and 19, 2002, a further 11 Units for a total subscription price of \$110 were issued to partners of Davies Ward Phillips & Vineberg LLP. On June 3, 2002, a further 20 Units for a total subscription price of \$200 were issued to partners of Davies Ward Phillips & Vineberg LLP. These Units will be purchased by InnVest REIT on the date of Closing for their issue price and cancelled.

#### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to InnVest REIT, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, provided that the REIT qualifies as a mutual fund trust for the purposes of the Tax Act on the date of Closing, the Units, as at that date, will be qualified investments under the Tax Act and the Regulations for trusts governed by Deferred Income Plans and RESPs. Based on representations of InnVest REIT, in the opinion of such counsel, the Units will not, at the date of Closing, constitute foreign property for Deferred Income Plans and other persons subject to tax under Part XI of the Tax Act. See "Certain Canadian Federal Income Tax Considerations".

#### **LEGAL MATTERS**

Certain legal matters in connection with the securities offered hereby will be passed upon by Davies Ward Phillips & Vineberg LLP, counsel for InnVest REIT, and Osler, Hoskin & Harcourt LLP, counsel for the Underwriters.

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

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

The transfer agent and registrar for 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 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 where the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of his or her province. A purchaser should refer to any applicable provisions of the securities legislation of his or her province for particulars of these rights or consult with a legal advisor.

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## COMPILATION REPORT

To the Trustees of  
InnVest Real Estate Investment Trust

We have reviewed, as to compilation only, the accompanying pro forma consolidated balance sheet of InnVest Real Estate Investment Trust as at March 31, 2002 and the pro forma consolidated statements of net income for the three months ended March 31, 2002 and for the year ended December 31, 2001 which have been prepared for inclusion in the prospectus relating to the sale and issue of units of InnVest Real Estate Investment Trust. In our opinion, the pro forma consolidated financial statements have been properly compiled to give effect to the proposed transactions and assumptions described in the notes thereto.

Toronto, Canada  
July 18, 2002

(Signed) Deloitte & Touche LLP  
Chartered Accountants

**INVEST REAL ESTATE INVESTMENT TRUST  
PRO FORMA CONSOLIDATED BALANCE SHEET**

(Unaudited)  
As at March 31, 2002  
(in thousands of dollars)

	<u>The REIT Note 1</u>	<u>Acquired Hotel Portfolio</u>	<u>Note</u>	<u>Pro forma adjustments</u>	<u>Pro forma</u>
<b>ASSETS</b>					
Current assets					
Cash . . . . .	\$ —	\$ 29,855	3(a)(b)(c)	\$ (5,699)	\$ 24,156
Accounts receivable . . . . .	—	6,157		—	6,157
Prepaid expenses and other assets . . . . .	—	5,550		—	5,550
	—	41,562		(5,699)	35,863
Hotel properties . . . . .	—	642,406	3(b)	222,787	865,193
Licence contracts . . . . .	—	12,746	3(b)	13,574	26,320
Deferred financing costs . . . . .	—	1,782	3(b)(c)	5,531	7,313
Goodwill . . . . .	—	79,205	3(b)	(79,205)	—
	<u>\$ —</u>	<u>\$777,701</u>		<u>\$ 156,988</u>	<u>\$ 934,689</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable and other liabilities . . . . .	\$ —	\$ 24,063	3(d)	\$ 1,800	\$ 25,863
Current portion of long-term debt . . . . .	—	289,895	3(c)	(285,137)	4,758
	—	313,958		(283,337)	30,621
Long-term debt . . . . .	—	137,477	3(b)(c)	180,647	318,124
Future income taxes . . . . .	—	95,310	3(b)	27,890	123,200
Non-controlling interest . . . . .	—	298	3(b)	(298)	—
	—	547,043		(75,098)	471,945
<b>EQUITY</b>					
Unitholders' capital . . . . .	—	230,658	3(a)(b)	157,086	387,744
Convertible debentures . . . . .	—	—	3(b)	75,000	75,000
	—	230,658		232,086	462,744
	<u>\$ —</u>	<u>\$777,701</u>		<u>\$ 156,988</u>	<u>\$ 934,689</u>

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**PRO FORMA CONSOLIDATED STATEMENT OF NET INCOME**  
(Unaudited)  
**Three months ended March 31, 2002**  
(in thousands of dollars, except per unit amounts)

	The REIT	Acquired Hotel Portfolio	Note	Pro forma adjustments	Pro forma
Hotel revenues . . . . .	\$ —	\$47,547		\$ —	\$47,547
Hotel expenses					
Operating expenses . . . . .	—	26,967		—	26,967
Property taxes, rent and insurance . . . . .	—	5,822		—	5,822
Management fees . . . . .	—	1,545	4(e)	60	1,605
	<u>—</u>	<u>34,334</u>		<u>60</u>	<u>34,394</u>
Operating income . . . . .	<u>—</u>	<u>13,213</u>		<u>(60)</u>	<u>13,153</u>
Other (income) and expenses					
Interest on mortgages and other debt . . . . .	—	7,068	4(b)	(933)	6,135
Corporate and administrative . . . . .	—	176		—	176
Capital tax . . . . .	—	625	4(c)	(130)	495
Franchise business income, net . . . . .	—	(153)		—	(153)
Other income . . . . .	—	(93)		—	(93)
Non-controlling interest . . . . .	—	53	4(d)	(53)	—
Depreciation and amortization . . . . .	—	8,149	4(a)	34	8,183
	<u>—</u>	<u>15,825</u>		<u>(1,082)</u>	<u>14,743</u>
Loss before income tax expense . . . . .	<u>—</u>	<u>(2,612)</u>		<u>1,022</u>	<u>(1,590)</u>
Income tax expense (recovery)					
Current . . . . .	—	448	4(c)	(131)	317
Future . . . . .	—	(2,934)	4(c)	2,601	(333)
	<u>—</u>	<u>(2,486)</u>		<u>2,470</u>	<u>(16)</u>
Net loss . . . . .	<u>\$ —</u>	<u>\$ (126)</u>		<u>\$(1,448)</u>	<u>\$ (1,574)</u>
Net loss per unit — basic . . . . .	—				<u>\$ (0.08)</u>
— diluted . . . . .	—				<u>\$ (0.08)</u>

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**PRO FORMA CONSOLIDATED STATEMENT OF NET INCOME**  
(Unaudited)  
Year ended December 31, 2001  
(in thousands of dollars, except per unit amounts)

	<u>The REIT</u>	<u>Acquired Hotel Portfolio</u>	<u>Note</u>	<u>Pro forma adjustments</u>	<u>Pro forma</u>
Hotel revenues . . . . .	\$ —	\$241,999		\$ —	\$241,999
Hotel expenses					
Operating expenses . . . . .	—	117,254		—	117,254
Property taxes, rent and insurance . . . . .	—	21,693		—	21,693
Management fees . . . . .	—	7,862	4(e)	305	8,167
	<u>—</u>	<u>146,809</u>		<u>305</u>	<u>147,114</u>
Operating income . . . . .	<u>—</u>	<u>95,190</u>		<u>(305)</u>	<u>94,885</u>
Other (income) and expenses					
Interest on mortgages and other debt . . . . .	—	35,078	4(b)	(10,568)	24,510
Corporate and administrative . . . . .	—	1,242		—	1,242
Capital tax . . . . .	—	2,458	4(c)	(478)	1,980
Franchise business income . . . . .	—	(1,627)		—	(1,627)
Other income . . . . .	—	(305)		—	(305)
Non-controlling interest . . . . .	—	297	4(d)	(297)	—
Depreciation and amortization . . . . .	—	30,871	4(a)	509	31,380
	<u>—</u>	<u>68,014</u>		<u>(10,834)</u>	<u>57,180</u>
Income before income tax expense and goodwill amortization . . . . .	<u>—</u>	<u>27,176</u>		<u>10,529</u>	<u>37,705</u>
Income tax expense (recovery)					
Current . . . . .	—	6,116	4(c)	(4,848)	1,268
Future . . . . .	—	(13,141)	4(c)	11,806	(1,335)
	<u>—</u>	<u>(7,025)</u>		<u>6,958</u>	<u>(67)</u>
Net income before goodwill amortization . . . . .	<u>—</u>	<u>34,201</u>		<u>3,571</u>	<u>37,772</u>
Goodwill amortization . . . . .	<u>—</u>	<u>4,555</u>	4(a)	<u>(4,555)</u>	<u>—</u>
Net income . . . . .	<u>\$ —</u>	<u>\$ 29,646</u>		<u>\$ 8,126</u>	<u>\$ 37,772</u>
Net income per unit — basic . . . . .	<u>—</u>				<u>\$ 0.74</u>
— diluted . . . . .	<u>—</u>				<u>\$ 0.74</u>

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**As at and for the three months ended March 31, 2002**  
**and for the year ended December 31, 2001**

**(all dollar amounts, except per unit amounts, are in thousands)**

**1. BASIS OF PRESENTATION**

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT was established pursuant to a declaration of trust dated January 1, 2002 (as amended from time to time, the "Declaration of Trust") when one unit was issued for ten dollars.

These pro forma consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the accounting policies and assumptions described below. The pro forma consolidated balance sheet gives effect to the transactions described in Note 3 as if they had occurred on March 31, 2002. The pro forma consolidated statements of net income give effect to the transactions described in Note 4 as if they had occurred on January 1, 2001.

The pro forma consolidated financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of future operating results or the financial position of the REIT.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*(a) Principles of consolidation*

The consolidated financial statements include the accounts of the REIT and its subsidiaries and the proportionate share of the assets, liabilities, revenues and expenses of joint ventures, including the REIT's 50% interest in Choice Hotels Canada Inc. ("CHC").

*(b) Capital assets*

Capital assets are recorded at cost to the REIT at acquisition, including all acquisition costs and related fees. Costs of betterments and improvements are capitalized to the hotel properties.

The REIT will depreciate its capital assets on a straight-line basis over their estimated useful lives over a period not to exceed the following:

Buildings . . . . .	40 years
Building renovations . . . . .	7 years
Furniture and equipment . . . . .	7 years
Paving . . . . .	10 years

*(c) Deferred financing costs*

Deferred financing costs consist of commitment fees, underwriting costs and legal costs associated with the sourcing of new debt and the renewal of existing debt of the REIT. These costs are amortized over the term of the applicable debt.

*(d) Licence contracts*

Licence contracts are recorded at the value attributed to the discounted cash flow of the expected earnings stream under the contract terms at the time of acquisition. These costs are amortized over the average life or expected renewal life of the contracts, which is estimated to be 20 years.

*(e) Revenue recognition*

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Monthly revenues from licence contracts are based on gross room revenue as reported by the franchisees and are recorded when earned with an appropriate provision for estimated uncollectible amounts. Initial franchise fees are recorded as income when the cash has been received and upon execution of binding contracts.

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**As at and for the three months ended March 31, 2002**  
**and for the year ended December 31, 2001**  
**(all dollar amounts, except per unit amounts, are in thousands)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(f) Income taxes*

Pursuant to the terms of the Declaration of Trust, the trustees of the REIT are required to make distributions or designate all taxable income earned, including the taxable part of net realized capital gains, by the REIT to unitholders and will deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required on income earned by the REIT.

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

Future income tax liabilities of the REIT result primarily from income tax and accounting basis differences in corporate subsidiaries of the REIT.

**3. PRO FORMA CONSOLIDATED BALANCE SHEET ADJUSTMENTS**

*(a) Initial public offering*

On July 18, 2002 the REIT entered into an underwriting agreement whereby the REIT assumes it will raise gross proceeds of \$300,000 pursuant to an initial public offering (the "Offering") through the issuance of 30,000,000 units at a price of \$10 per unit (excluding any over-allotment option). Costs relating to the Offering, including underwriters' fees, are expected to be \$22,945 and are charged directly to unitholders' equity.

*(b) Asset acquisition*

On closing of the Offering, it is assumed the REIT and/or its subsidiaries will acquire the following assets which are currently owned by W-Westmont Corp. ("W-Westmont"), WW Canada Corp., WW Hotel Holdings LP and WHRB Realty Co. and their respective subsidiaries: 114 Canadian hotel properties, CHC and various licence contracts, cash and current assets, and will assume long-term debt and current liabilities (combined, the "Acquired Hotel Portfolio"). The REIT will assume the working capital related to the hotel properties and CHC on acquisition which is expected to be nil. Should the working capital be negative on closing of the acquisition, the vendors will pay the REIT an amount equal to the working capital deficiency.

Net assets acquired are as follows:

Cash . . . . .	\$ 12,356
Current assets . . . . .	11,707
Hotel properties . . . . .	865,193
Licence contracts . . . . .	26,320
	<u>915,576</u>
Future income tax liability . . . . .	(123,200)
Assumption of existing long-term debt . . . . .	(430,139)
Current liabilities . . . . .	<u>(24,063)</u>
	<u>\$ 338,174</u>

The net consideration paid consists of the following:

Units . . . . .	\$ 110,689
Payment of land transfer tax and other acquisition costs . . . . .	6,700
Convertible debentures . . . . .	75,000
Cash . . . . .	<u>145,785</u>
	<u>\$ 338,174</u>

The net consideration paid is after giving effect to the subscription for and purchase of 11,068,910 units at a price of \$10 per unit, for gross proceeds of \$110,689, and \$75,000 of convertible debentures by certain vendors.

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**As at and for the three months ended March 31, 2002**  
**and for the year ended December 31, 2001**  
**(all dollar amounts, except per unit amounts, are in thousands)**

**3. PRO FORMA CONSOLIDATED BALANCE SHEET ADJUSTMENTS (Continued)**

This purchase price allocation has been determined as if the acquisition had occurred on March 31, 2002 and will be different once the acquisition is closed.

The convertible debentures will bear interest at a rate of 9.75% per annum payable semi-annually in arrears and will mature on June 30, 2007. Each \$1,000 principal amount of convertible debentures will be convertible at the option of the holder into 93.0233 units (representing a conversion price of \$10.75 per unit). The convertible debentures will be redeemable, in whole or from time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. Provided that there is not a current event of default, the REIT will have the option to satisfy its obligation to pay interest on any interest payment date, or to pay the principal amount of the convertible debentures due at maturity or upon redemption, in whole or in part by issuing the number of units equal to the amount of the REIT's interest payment obligation or, in the case of maturity or redemption, the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable.

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

The future tax liability that will be recorded on the acquisition of the Acquired Hotel Portfolio of \$123,200 results primarily from differences between the amount allocated for accounting purposes to hotel properties and licence contracts, which are owned by subsidiaries subject to tax, and their income tax values. This balance has been recorded based on an average rate of 31.5%. The REIT anticipates that this balance will not result in cash taxes to the REIT unless a related asset is sold for an amount in excess of its tax value.

*(c) Long-term debt*

The REIT will assume existing long-term debt on the acquired hotel properties in the amount of \$430,139 (face value of \$427,372), which bears interest at a weighted average interest rate of 6.3%. The mortgages are secured by first charges on certain of the REIT's hotel properties.

The pro forma consolidated financial statements assume that new first mortgage financing (the "New Debt") in the amount of \$216,708 has been arranged, which bears interest at a weighted average interest rate of 8.3% for an average term of 5 years. The Pro Forma consolidated financial statements assume that \$7,313 of costs are incurred as a result of placing this debt.

Debt assumed on acquisition of the Acquired Hotel Portfolio in the amount of \$323,965 is assumed to be repaid from the proceeds of the Offering and the proceeds of the New Debt as follows:

Mortgages . . . . .	\$248,092
Unsecured debt . . . . .	<u>75,873</u>
	<u>\$323,965</u>

Upon entering into the new financing and the repayment as outlined above, the pro forma consolidated financial statements assume that the REIT will have \$322,882 (face value of \$320,115) of long-term debt with a weighted average interest rate of 8.3%.

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**As at and for the three months ended March 31, 2002**  
**and for the year ended December 31, 2001**  
**(all dollar amounts, except per unit amounts, are in thousands)**

**3. PRO FORMA CONSOLIDATED BALANCE SHEET ADJUSTMENTS (Continued)**

*(d) Sources and uses of funds*

The REIT's sources and uses of funds after the Offering, the acquisition of the Acquired Hotel Portfolio and the arrangement of the New Debt are as follows:

Initial public offering of units, net of issue costs . . . . .	\$277,055
Proceeds from New Debt, net of financing costs . . . . .	209,395
	<u>486,450</u>
Payment for the net assets acquired and acquisition costs . . . . .	(152,485)
Customer loyalty program payment . . . . .	1,800
Repayment of long-term debt assumed on acquisition . . . . .	<u>(323,965)</u>
Working capital remaining in the REIT . . . . .	<u>\$ 11,800</u>

The vendors have committed 98 hotels to participate in a customer loyalty program. To fund and discharge the commitment the vendors have agreed to pay the REIT \$1,800.

This working capital includes \$10,000 which will be funded by the vendors for the uncompleted capital expenditures at the date of acquisition, which will be subsequently incurred on the Acquired Hotel Portfolio.

**4. PRO FORMA CONSOLIDATED NET INCOME ADJUSTMENTS**

*(a) Depreciation and amortization*

Depreciation and amortization expense has been increased by \$149 (December 31, 2001 — \$1,246) to reflect the additional purchase price of the assets over the net book value at January 1, 2001 and to reflect the amortization of the deferred financing costs related to the New Debt. Goodwill amortization has been reduced to \$nil as no goodwill is expected to be recorded on acquisition of the Acquired Hotel Portfolio.

*(b) Interest expense*

Interest expense has been decreased by \$933 (December 31, 2001 — \$10,158) to reflect the New Debt, the repayment of debt, and the impact of the fair value adjustment to debt, in the amount of \$342 (December 31, 2001 — \$1,365), on acquisition of the Acquired Hotel Portfolio.

The pro forma interest expense does not include interest on the convertible debentures, as these payments will be recorded as a charge to equity.

*(c) Income and capital taxes*

A pro forma adjustment has been made to income and capital taxes to reflect the effect of the acquisition of the Acquired Hotel Portfolio using the liability method of tax allocation and the tax status of the REIT.

*(d) Non-controlling interest*

Non-controlling interest has been eliminated to reflect the acquisition of the limited partnership units from the non-controlling interest on one hotel property, as if the acquisition occurred on January 1, 2001.

*(e) Management fees*

Management fees have been adjusted to reflect the fees expected to be incurred under the hotel management agreement between the REIT and Westmont Hospitality Canada Limited to be entered into concurrently with the closing of the Offering, and are recorded based on 3.375% of total hotel revenues.

**INNVEST REAL ESTATE INVESTMENT TRUST**  
**NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

**As at and for the three months ended March 31, 2002**  
**and for the year ended December 31, 2001**

(all dollar amounts, except per unit amounts, are in thousands)

**5. DISTRIBUTABLE INCOME**

Distributable income is not a GAAP measure and there is no standardized measure of distributable income. Distributable income, as presented, may not be comparable to similar measures presented by other real estate investment trusts. Distributable income means net income of the REIT as set out in its consolidated financial statements determined in accordance with Canadian generally accepted accounting principles ("Net Income") subject to certain adjustments as set out in the Declaration of Trust, including the adding back of depreciation and amortization, amortization of fair value debt adjustment and future income tax expense, excluding any gains or losses on the disposition of real property, future income tax benefits and deducting the amount calculated, at 4% of hotel revenues, for the reserve for replacement of furniture, fixtures and equipment and capital improvements ("Reserve for FF&E and capital") and the interest on convertible debentures that is not included in the computation of Net Income, and any other adjustments determined by the trustees of the REIT in their discretion.

Pro forma consolidated distributable income is computed as follows:

	<b>Three months ended March 31, 2002</b>	<b>Year ended December 31, 2001</b>
Pro forma consolidated net income (loss) . . . . .	\$(1,574)	\$37,772
Add (deduct)		
Depreciation and amortization . . . . .	8,183	31,380
Amortization of fair value debt adjustment . . . . .	(342)	(1,365)
Future income taxes . . . . .	(333)	(1,335)
Reserve for FF&E and capital . . . . .	(1,902)	(9,680)
Convertible debenture interest . . . . .	(1,828)	(7,312)
Pro forma consolidated distributable income . . . . .	\$ 2,204	\$49,460
Pro forma consolidated distributable income per unit — basic . . . . .	\$ 0.05	\$ 1.20
Pro forma consolidated distributable income per unit — diluted . . . . .	\$ 0.05	\$ 1.16

**6. NET INCOME AND DISTRIBUTABLE INCOME PER UNIT**

Net income and distributable income per unit have been calculated based upon 41,068,910 units outstanding. Diluted per unit calculations assume the principal on the convertible debentures was repaid in units at the beginning of the period based on a \$10 market value and that 7,894,737 units were issued.

## AUDITORS' REPORT

To the Trustees of  
InnVest Real Estate Investment Trust

We have audited the balance sheet of InnVest Real Estate Investment Trust as at January 1, 2002. This balance sheet is the responsibility of the REIT's management. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation.

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of the Trust as at January 1, 2002 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
July 18, 2002

(Signed) Deloitte & Touche LLP  
Chartered Accountants

**INVEST REAL ESTATE INVESTMENT TRUST**

**BALANCE SHEET**

**As at January 1, 2002**

Cash .....	<u>\$10</u>
Unitholders' Equity .....	<u>\$10</u>

On behalf of the Trustees:

(Signed) MORTON GROSS  
Trustee

(Signed) FRANK ANDERSON  
Trustee

**INNVEST REAL ESTATE INVESTMENT TRUST**

**NOTES TO THE BALANCE SHEET**

**As at January 1, 2002**

**(all dollar amounts are in thousands)**

**1. THE TRUST**

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT was established pursuant to a declaration of trust dated January 1, 2002 (as amended from time to time, the "Declaration of Trust") when one unit was issued for ten dollars.

**2. SUBSEQUENT EVENTS**

*(a) Initial public offering*

On July 18, 2002 the REIT entered into an underwriting agreement whereby the REIT is expected to raise gross proceeds of \$300,000 pursuant to an initial public offering (the "Offering") through the issuance of 30,000,000 units at a price of \$10 per unit (excluding any over-allotment option). Costs relating to the Offering, including underwriters' fees, are expected to be \$22,945 and are charged directly to unitholders' equity.

*(b) Asset acquisition*

On closing of the Offering, the REIT and/or its subsidiaries will acquire the following assets which are currently owned by W-Westmont Corp., WW Canada Corp., WW Hotel Holdings LP and WHRB Realty Co. and their respective subsidiaries: 114 Canadian hotel properties, a 50% interest in Choice Hotels Canada Inc. ("CHC"), various licence contracts, cash and current assets, and will assume long-term debt and current liabilities (combined, the "Acquired Hotel Portfolio"). The REIT will assume the working capital related to the hotel properties and CHC on acquisition which is expected to be \$nil. Should the working capital be negative on closing of the acquisition, the vendors will pay the REIT an amount equal to the working capital deficiency.

Net assets acquired are as follows:

Cash . . . . .	\$ 12,356
Current assets . . . . .	11,707
Hotel properties . . . . .	865,193
Licence contracts . . . . .	26,320
	<u>915,576</u>
Future income tax liability . . . . .	(123,200)
Assumption of existing long-term debt . . . . .	(430,139)
Current liabilities . . . . .	(24,063)
	<u>\$ 338,174</u>

The net consideration paid consists of the following:

Units . . . . .	\$ 110,689
Payment of land transfer tax and other acquisition costs . . . . .	6,700
Convertible debentures . . . . .	75,000
Cash . . . . .	145,785
	<u>\$ 338,174</u>

The net consideration paid is after giving effect to the subscription for and purchase of 11,068,910 units at a price of \$10 per unit, for gross proceeds of \$110,689, and \$75,000 of convertible debentures by certain vendors.

This purchase price allocation has been determined as if the acquisition had occurred on March 31, 2002 and will be different once the acquisition is closed.

The convertible debentures will bear interest at a rate of 9.75% per annum payable semi-annually in arrears and will mature on June 30, 2007. Each \$1,000 principal amount of convertible debentures will be convertible at the option of the holder into 93.0233 units (representing a conversion price of \$10.75 per unit). The convertible debentures will be redeemable, in whole or from time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. Provided that there is not a current event of default, the REIT will have the option to satisfy its obligation to pay interest on any interest payment date, or to pay the principal amount of the convertible debentures due at maturity or upon redemption, in whole or in part by issuing the number of units equal to the amount of the REIT's interest payment obligation or, in the case of

**INNVEST REAL ESTATE INVESTMENT TRUST  
NOTES TO THE BALANCE SHEET (Continued)**

**As at January 1, 2002  
(all dollar amounts are in thousands)**

**2. SUBSEQUENT EVENTS (Continued)**

maturity or redemption, the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable.

The convertible debenture balance will be recorded as equity as the REIT has the ability to satisfy its obligations (principal and interest) under the terms of such instrument through the issue of units.

The future tax liability that will be recorded on the acquisition of the Acquired Hotel Portfolio of \$123,200 results primarily from differences between the amount allocated for accounting purposes to hotel properties and licence contracts, which are owned by subsidiaries subject to tax, and their income tax values. This balance has been recorded based on an average rate of 31.5%. The REIT anticipates that this balance will not result in cash income taxes to the REIT unless a related asset is sold for an amount in excess of its tax value.

*(c) Long-term debt*

The REIT will assume existing long-term debt on the acquired hotel properties in the amount of \$430,139 (face value of \$427,372), which bears interest at a weighted average interest rate of 6.3%. The mortgages are secured by first charges on certain of the REIT's hotel properties.

The REIT has a commitment for new first mortgage financing in the amount of \$216,708, which bears interest at a weighted average interest rate of 8.3% for an average term of 5 years. The anticipated costs associated with placing this debt are \$7,313.

The REIT plans to repay long-term debt that will be assumed on the acquisition of the Acquired Hotel Portfolio in the amount of \$323,965 from the proceeds of the Offering and the proceeds of the new first mortgage financing as follows:

Mortgages . . . . .	\$248,092
Unsecured debt . . . . .	<u>75,873</u>
	<u>\$323,965</u>

Upon entering into the new financing and the repayment as outlined above, the REIT will have \$322,882 (face value of \$320,115) of long-term debt with a weighted average interest rate of 8.1%.

*(d) Business activities*

From January 1, 2002 to July 18, 2002 the REIT carried on no business.

## AUDITORS' REPORT

To the Trustees of  
InnVest Real Estate Investment Trust

We have audited the combined balance sheets of the Acquired Hotel Portfolio as at December 31, 2001 and 2000 and the combined statements of net income and equity in net assets and of cash flows for the years ended December 31, 2001, 2000 and 1999. These combined financial statements are the responsibility of the management of Westmont Hospitality Management Limited. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Acquired Hotel Portfolio as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years ended December 31, 2001, 2000 and 1999 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada  
July 18, 2002

(Signed) Deloitte & Touche LLP  
Chartered Accountants

**ACQUIRED HOTEL PORTFOLIO  
COMBINED BALANCE SHEETS**

**As at March 31, 2002 (unaudited) and December 31, 2001 and 2000  
(in thousands of dollars)**

	<u>March 31,</u> <u>2002</u>	<u>December 31</u>	
	(unaudited)	<u>2001</u>	<u>2000</u>
<b>ASSETS</b>			
Current assets			
Cash (Note 3) . . . . .	\$ 29,855	\$ 27,997	\$ 26,391
Accounts receivable . . . . .	6,157	6,723	7,838
Prepaid expenses and other assets . . . . .	5,550	3,552	3,000
	<u>41,562</u>	<u>38,272</u>	<u>37,229</u>
Hotel properties (Note 4) . . . . .	642,406	645,615	654,555
Licence contracts, net of accumulated amortization of \$2,129 (December 31, 2001 — \$1,943, December 31, 2000 — \$1,199) . . . . .	12,746	12,932	13,676
Deferred financing costs, net of accumulated amortization of \$11,818 (December 31, 2001 — \$10,655, December 31, 2000 — \$6,482) . . . . .	1,782	2,943	6,599
Goodwill . . . . .	79,205	79,205	83,760
	<u>\$777,701</u>	<u>\$778,967</u>	<u>\$795,819</u>
<b>LIABILITIES</b>			
Current liabilities			
Operating loan . . . . .	\$ —	\$ 2,975	\$ 2,201
Accounts payable and other liabilities . . . . .	24,063	28,413	28,135
Current portion of long-term debt (Note 6) . . . . .	289,895	287,407	84,533
	<u>313,958</u>	<u>318,795</u>	<u>114,869</u>
Long-term debt (Note 6) . . . . .	137,477	137,501	340,392
Future income taxes (Note 7) . . . . .	95,310	98,244	111,385
Non-controlling interest . . . . .	298	200	283
	<u>547,043</u>	<u>554,740</u>	<u>566,929</u>
Commitments and contingencies (Note 8)			
<b>EQUITY IN NET ASSETS</b> . . . . .	<u>230,658</u>	<u>224,227</u>	<u>228,890</u>
	<u>\$777,701</u>	<u>\$778,967</u>	<u>\$795,819</u>

(Signed) MORTON GROSS  
Trustee

(Signed) FRANK ANDERSON  
Trustee

**ACQUIRED HOTEL PORTFOLIO**  
**COMBINED STATEMENTS OF NET INCOME**  
**AND EQUITY IN NET ASSETS**

**For the three months ended March 31, 2002 and 2001 (unaudited)**  
**and for the years ended December 31, 2001, 2000 and 1999**  
**(in thousands of dollars)**

	March 31,		December 31,		
	2002	2001	2001	2000	1999
	(unaudited)				
Hotel revenues . . . . .	\$ 47,547	\$ 48,476	\$241,999	\$242,803	\$234,801
Hotel expenses					
Operating expenses . . . . .	26,967	27,008	117,254	113,322	112,088
Property taxes, rent and insurance . . . . .	5,822	5,465	21,693	20,034	19,992
Management fees (Note 9) . . . . .	1,545	1,575	7,862	7,884	5,521
	34,334	34,048	146,809	141,240	137,601
Operating income . . . . .	13,213	14,428	95,190	101,563	97,200
Other (income) and expenses					
Interest on mortgages and other debt (Note 10)	7,068	9,460	35,078	39,622	36,260
Corporate and administrative . . . . .	176	293	1,242	1,033	4,749
Capital tax . . . . .	625	629	2,458	2,522	2,477
Franchise business income, net (Note 11) . . . . .	(153)	(200)	(1,627)	(1,410)	(1,271)
Other income (Note 12) . . . . .	(93)	(170)	(305)	(911)	(988)
Non-controlling interest . . . . .	53	66	297	317	1,028
Depreciation and amortization . . . . .	8,149	7,400	30,871	28,877	25,016
	15,825	17,478	68,014	70,050	67,271
Income (loss) before income tax expense and goodwill amortization . . . . .	(2,612)	(3,050)	27,176	31,513	29,929
Income tax expense (recovery) (Note 7)					
Current . . . . .	448	473	6,116	6,696	3,146
Future . . . . .	(2,934)	(3,372)	(13,141)	(24,570)	11,742
	(2,486)	(2,899)	(7,025)	(17,874)	14,888
Net income (loss) before goodwill amortization . . . . .	(126)	(151)	34,201	49,387	15,041
Goodwill amortization . . . . .	—	1,138	4,555	4,555	2,779
Net income (loss) . . . . .	(126)	(1,289)	29,646	44,832	12,262
Opening equity in net assets . . . . .	224,227	228,890	228,890	243,683	32,863
Net (drawings) contribution . . . . .	6,557	(1,225)	(34,309)	(59,625)	198,558
Closing equity in net assets . . . . .	\$230,658	\$226,376	\$224,227	\$228,890	\$243,683

**ACQUIRED HOTEL PORTFOLIO**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**For the three months ended March 31, 2002 and 2001, and**  
**for the years ended December 31, 2001, 2000 and 1999**  
**(in thousands of dollars)**

	March 31,		December 31,		
	2002	2001	2001	2000	1999
	(unaudited)				
<b>OPERATING ACTIVITIES</b>					
Net income (loss) . . . . .	\$ (126)	\$(1,289)	\$29,646	\$44,832	\$ 12,262
Add (deduct) items not affecting cash from operations					
Depreciation and amortization . . . . .	8,149	8,538	35,426	33,432	27,795
Future income taxes . . . . .	(2,934)	(3,372)	(13,141)	(24,570)	11,742
Non-controlling interest . . . . .	53	66	297	317	1,028
Cash provided from operations before changes in other balances related to operations . . . . .	5,142	3,943	52,228	54,011	52,827
Changes in non-cash working capital . . . . .	(5,703)	(3,705)	841	(9,960)	9,035
	(561)	238	53,069	44,051	61,862
<b>FINANCING ACTIVITIES</b>					
Proceeds from long-term debt . . . . .	5,190	7,936	76,926	19,147	109,269
Repayment of long-term debt . . . . .	(2,726)	(7,046)	(76,943)	(19,669)	(93,339)
(Decrease) increase in operating loan (net) . . . . .	(2,975)	113	774	2,201	—
Distributions paid to non-controlling interest . . . . .	(34)	—	(380)	(298)	(457)
Net (drawings) contribution . . . . .	6,557	(1,225)	(34,309)	(59,625)	198,558
Deferred financing costs . . . . .	(25)	(10)	(919)	(745)	(12,127)
	5,987	(232)	(34,851)	(58,989)	201,904
<b>INVESTING ACTIVITIES</b>					
Hotel properties additions . . . . .	(3,568)	(3,748)	(16,612)	(14,123)	(18,821)
Business acquisition . . . . .	—	—	—	—	(189,942)
Acquisition of non-controlling interest . . . . .	—	—	—	(1,206)	(4,106)
Restricted cash . . . . .	(357)	(436)	(825)	(3,329)	(7,783)
	(3,925)	(4,184)	(17,437)	(18,658)	(220,652)
<b>INCREASE (DECREASE) IN CASH DURING</b>					
<b>THE PERIOD</b> . . . . .	1,501	(4,178)	781	(33,596)	43,114
Cash, beginning of period . . . . .	16,061	15,280	15,280	48,876	5,762
Cash, end of period . . . . .	\$17,562	\$11,102	\$16,061	\$15,280	\$ 48,876
Supplemental disclosure of cash flow information:					
Cash paid for interest	\$ 5,259	\$ 5,783	\$32,648	\$30,493	\$ 38,485
Cash paid for income taxes	\$ 1,794	\$ 974	\$ 7,786	\$ 7,273	\$ 4,084

**ACQUIRED HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**As at March 31, 2002 (unaudited), and December 31, 2001 and 2000 and for**  
**the three months ended March 31, 2002 and 2001 (unaudited)**  
**and the years ended December 31, 2001, 2000 and 1999**  
**(all dollar amounts are in thousands)**

**1. BASIS OF PRESENTATION**

The Acquired Hotel Portfolio financial statements have been prepared on a combined carve out basis from the consolidated financial statements of W-Westmont Corp. ("W-Westmont"), WW Canada Corp., WW Hotel Holdings LP and WHRB Realty Co. These combined financial statements have been prepared to account for the properties and franchise operations that are assumed to be acquired, directly and indirectly by InnVest Real Estate Investment Trust concurrently with the closing of its initial public offering of units. The hotel properties and franchise operations to be acquired are referred to as the "Acquired Hotel Portfolio".

The Acquired Hotel Portfolio consists of 114 Canadian hotel properties, a 50% interest in Choice Hotels Canada Inc. ("CHC") and various licence contracts. W-Westmont owns 96 of these hotel properties, CHC and various licence contracts. The current owners of W-Westmont acquired such assets on May 21, 1999. The senior management team responsible for managing such assets prior to May 21, 1999 has substantially remained the same since May 21, 1999. Consequently the period from January 1, 1999 to May 21, 1999 has been included in the combined financial statements for the year ended December 31, 1999. Net income before income tax expense and goodwill amortization for that period is summarized as follows:

Hotel revenues . . . . .	\$60,492
Expenses	
Hotel and corporate and administrative expenses . . . . .	41,388
Interest on mortgages and other debt . . . . .	9,838
Franchise business income net . . . . .	(96)
Depreciation and amortization . . . . .	5,799
Total expenses . . . . .	<u>56,929</u>
Net income before income taxes and goodwill amortization . . . . .	<u>\$ 3,563</u>

These combined financial statements represent the financial position and results of operations had the Acquired Hotel Portfolio been accounted for on a stand alone, carved out basis. As the Acquired Hotel Portfolio itself, prepared on this basis, is an unincorporated entity and does not have share capital, these combined financial statements have been prepared without shareholders' equity. As a result, these combined financial statements depict an equity in net assets balance on the balance sheet, which represents the net equity associated with this portfolio. All assets, liabilities, revenues and expenses have been allocated to the Acquired Hotel Portfolio; estimates, where necessary, have been used to prepare such allocations.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*(a) Joint ventures*

Investments in joint ventures, including CHC, are recorded on a proportionate consolidation basis, whereby the proportionate share of the assets, liabilities, revenues and expenses are recorded.

*(b) Use of estimates*

The preparation of the Acquired Hotel Portfolio combined financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. As is the case with real estate, estimates have been made to determine the recoverability of accounts receivable and hotel properties. Actual results could differ from those estimates.

*(c) Hotel properties*

Land, buildings, furniture and equipment are recorded at cost less accumulated depreciation.

**ACQUIRED HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**As at March 31, 2002 (unaudited), and December 31, 2001 and 2000 and for**  
**the three months ended March 31, 2002 and 2001 (unaudited)**  
**and the years ended December 31, 2001, 2000 and 1999**  
**(all dollar amounts are in thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*(d) Depreciation*

Depreciation is provided on a straight line basis over a period not to exceed the following:

Buildings . . . . .	40 years
Building renovations . . . . .	7 years
Furniture and equipment . . . . .	7 years
Paving . . . . .	10 years

*(e) Deferred financing costs*

Deferred financing costs consist of commitment fees, underwriting costs and legal costs associated with the sourcing of new debt and the renewal of existing debt. These costs are amortized over the term of the applicable debt.

*(f) Licence contracts*

Licence contracts are recorded at the value attributed to the discounted cash flow of the expected earning stream under the contract terms at the time of acquisition. These costs are amortized over the average life or expected renewal life of the contracts, which is estimated to be 20 years.

*(g) Goodwill*

Effective January 1, 2002, the Acquired Hotel Portfolio adopted, on a prospective basis, the new recommendation issued by the Canadian Institute of Chartered Accountants dealing with the accounting for goodwill and other intangible assets. Under this standard, goodwill is not amortized and is recorded on the balance sheet net of any write-down for impairment. A goodwill impairment loss is recognized when the carrying amount of the goodwill of a reporting unit exceeds the fair value of goodwill. Previously the Acquired Hotel Portfolio amortized goodwill on a straight-line basis over 20 years. The impact of this new standard on the comparative periods presented would be to add back goodwill amortization in the amount of \$1,138 for the three months ended March 31, 2001 and \$4,555 for the year ended December 31, 2001 (2000 — \$4,555, 1999 — \$2,779).

*(h) Revenue recognition*

Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Monthly revenues from licence contracts are based on gross room revenue as reported by the franchisees and are recorded when earned with an appropriate provision for estimated uncollectible amounts. Initial franchise fees are recorded as income when the cash has been received and upon execution of binding contracts.

*(i) Income taxes*

The asset and liability method is used with respect to the Acquired Hotel Portfolio to provide for income taxes on all transactions recorded in the financial statements. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference based on the tax rates which are expected to be in effect when the underlying items of income and expense are expected to be realized.

*(j) Financial instruments*

The Acquired Hotel Portfolio has interest rate cap contracts to manage a portion of its risks from fluctuations in interest rates (See Note 6). These financial instruments are accounted for in the Acquired Hotel Portfolio as hedges and, as a result, the carrying values of the financial instruments are not adjusted to reflect their current market values. Any amounts to be received or paid arising from changes in interest rates are recognized as an adjustment to interest expense on an accrual basis over the term of the debt being hedged.

The Acquired Hotel Portfolio is subject to credit risk through accounts receivable. Ongoing credit valuations of these balances are performed and reserves for identified potential credit loss are maintained.

**ACQUIRED HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**As at March 31, 2002 (unaudited), and December 31, 2001 and 2000 and for**  
**the three months ended March 31, 2002 and 2001 (unaudited)**  
**and the years ended December 31, 2001, 2000 and 1999**  
**(all dollar amounts are in thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. Unless otherwise disclosed, the fair value of financial instruments approximates their recorded values.

**3. CASH**

	<u>March 31,</u> <u>2002</u>	<u>December 31,</u>	
		<u>2001</u>	<u>2000</u>
	(unaudited)		
Cash . . . . .	\$17,562	\$16,061	\$15,280
Restricted cash . . . . .	<u>12,293</u>	<u>11,936</u>	<u>11,111</u>
	<u>\$29,855</u>	<u>\$27,997</u>	<u>\$26,391</u>

Restricted cash is being held pursuant to agreements with various mortgage lenders and is available to undertake capital refurbishments.

**4. HOTEL PROPERTIES**

The combined balance sheets include the proportionate share of joint venture properties (Note 5).

	<u>March 31, 2002</u>		
	<u>Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Book</u> <u>Value</u>
		(unaudited)	
Land . . . . .	\$ 58,604	\$ —	\$ 58,604
Buildings . . . . .	608,939	57,380	551,559
Furniture and equipment . . . . .	<u>55,688</u>	<u>23,445</u>	<u>32,243</u>
	<u>\$723,231</u>	<u>\$80,825</u>	<u>\$642,406</u>
		<u>December 31, 2001</u>	
	<u>Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Book</u> <u>Value</u>
Land . . . . .	\$ 58,423	\$ —	\$ 58,423
Buildings . . . . .	607,967	52,718	555,249
Furniture and equipment . . . . .	<u>53,189</u>	<u>21,246</u>	<u>31,943</u>
	<u>\$719,579</u>	<u>\$73,964</u>	<u>\$645,615</u>
		<u>December 31, 2000</u>	
	<u>Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Book</u> <u>Value</u>
Land . . . . .	\$ 58,342	\$ —	\$ 58,342
Buildings . . . . .	601,002	34,951	566,051
Furniture and equipment . . . . .	<u>43,623</u>	<u>13,461</u>	<u>30,162</u>
	<u>\$702,967</u>	<u>\$48,412</u>	<u>\$654,555</u>

**ACQUIRED HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**As at March 31, 2002 (unaudited), and December 31, 2001 and 2000 and for**  
**the three months ended March 31, 2002 and 2001 (unaudited)**  
**and the years ended December 31, 2001, 2000 and 1999**  
**(all dollar amounts are in thousands)**

**5. JOINT VENTURES**

The following represents the proportionate share of the interest in joint ventures forming part of the Acquired Hotel Portfolio:

	March 31,		December 31,		
	2002	2001	2001	2000	1999
	(unaudited)				
Assets . . . . .	\$4,994	\$4,812	\$5,216	\$5,593	\$5,448
Liabilities . . . . .	1,855	1,684	2,267	2,623	2,369
Revenues . . . . .	765	688	4,824	4,304	3,768
Expenses . . . . .	710	546	3,448	3,131	2,697

**6. LONG-TERM DEBT**

	March 31,	December 31,	
	2002	2001	2000
	(unaudited)		
Mortgages payable . . . . .	\$361,799	\$364,473	\$361,428
Unsecured portion of acquisition loan . . . . .	64,867	59,717	62,518
Other long-term debt . . . . .	706	718	979
	<u>427,372</u>	<u>424,908</u>	<u>424,925</u>
Less: Current portion of long-term debt . . . . .	(289,895)	(287,407)	(84,533)
	<u>\$137,477</u>	<u>\$137,501</u>	<u>\$340,392</u>

Substantially all of the assets of the Acquired Hotel Portfolio, in addition to the shares of the companies that own the Acquired Hotel Portfolio, have been pledged as security under various debt agreements. At March 31, 2002, long-term debt had a weighted average interest rate of 6.27% (December 31, 2001 — 6.50%, December 31, 2000 — 8.81%). The long-term debt is repayable in blended monthly payments of principal and interest, with the Acquired Hotel Portfolio's proportionate share totalling \$3,531 per month (December 31, 2001 — \$3,604, December 31, 2000 — \$3,396), and matures at various dates from May 28, 2002 to August 23, 2015.

Scheduled repayment of long-term debt is as follows:

April 1, 2002 – December 31, 2002 . . . . .	\$289,895
2003 . . . . .	45,071
2004 . . . . .	44,187
2005 . . . . .	43,722
2006 . . . . .	776
2007 and thereafter . . . . .	3,721
	<u>\$427,372</u>

The Acquired Hotel Portfolio has an interest rate cap agreement in order to manage the exposure of the Acquired Hotel Portfolio to changes in interest rates on \$132,000 of the loan facility that matures on May 28, 2002. This agreement effectively caps the underlying Bankers' Acceptance rate of 6.5% to July 15, 2001 and 7.5% to July 15, 2002, which is the rate upon which this debt is based. The difference between the fair market value and carrying value of the cap at March 31, 2002 is not material.

The estimated fair value of the long-term debt of the Acquired Hotel Portfolio at March 31, 2002 was approximately \$430,139. This estimate was determined by discounting the expected cash flows at the interest rates currently being offered to the owners of the Acquired Hotel Portfolio for debt of the same remaining maturities (December 31, 2001 — \$428,903; December 31, 2000 — \$443,131).

**ACQUIRED HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**As at March 31, 2002 (unaudited), and December 31, 2001 and 2000 and for**  
**the three months ended March 31, 2002 and 2001 (unaudited)**  
**and the years ended December 31, 2001, 2000 and 1999**  
**(all dollar amounts are in thousands)**

**7. INCOME TAXES**

Current taxes have been recorded in accordance with statutory rates specified in taxation statutes. The statutory rate differs from the effective rate provided for in the combined financial statements as follows:

	March 31,		December 31,		
	2002	2001	2001	2000	1999
	(unaudited)				
Income (loss) before income tax expense and goodwill amortization . . . . .	\$ (2,612)	\$ (3,050)	\$ 27,176	\$ 31,513	\$29,929
Statutory Rate . . . . .	38.68%	41.26%	41.26%	42.95%	43.31%
Provision for income taxes . . . . .	\$ (1,010)	\$ (1,258)	\$ 11,213	\$ 13,535	\$12,962
Large corporation tax . . . . .	426	429	1,682	1,725	1,794
Intercompany interest deduction . . . . .	(1,704)	(1,818)	(7,270)	(7,723)	—
Effect of statutory rate changes on temporary differences . . . . .	(198)	(252)	(12,650)	(25,411)	132
Total tax (recovery) provision . . . . .	\$ (2,486)	\$ (2,899)	\$ (7,025)	\$ (17,874)	\$14,888

Future income taxes arise from the existence of temporary differences created from the items listed below. Future income taxes have been recorded at the average rate representing the expected rate at which the temporary differences will reverse. The components of the net future income tax liability are as follows:

	March 31,	December 31,	
	2002	2001	2000
	(unaudited)		
Future income tax assets:			
Reserves . . . . .	\$ 708	\$ 708	\$ 1,796
Loss carryforwards and financing charges . . . . .	3,313	1,709	2,529
	4,021	2,417	4,325
Future income tax liabilities:			
Licence contracts . . . . .	2,005	2,077	2,436
Hotel properties . . . . .	97,326	98,584	113,274
	99,331	100,661	115,710
Net future income tax liability . . . . .	\$ 95,310	\$ 98,244	\$111,385

**8. COMMITMENTS AND CONTINGENCIES**

*(a) Lease commitments*

The Acquired Hotel Portfolio is committed under various operating leases to minimum annual rental payments as follows:

	<b>2001</b>
April 1, 2002 to December 31, 2002 . . . . .	\$1,001
2003 . . . . .	857
2004 . . . . .	657
2005 . . . . .	276
2006 . . . . .	215
2007 and thereafter . . . . .	112
	<u>\$3,118</u>

**ACQUIRED HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**As at March 31, 2002 (unaudited), and December 31, 2001 and 2000 and for**  
**the three months ended March 31, 2002 and 2001 (unaudited)**  
**and the years ended December 31, 2001, 2000 and 1999**  
**(all dollar amounts are in thousands)**

**8. COMMITMENTS AND CONTINGENCIES (Continued)**

Total minimum lease payments for the remaining term of the operating leases aggregate to approximately \$3,118. Rentals that are determined as a percentage of revenues with no minimum amounts are excluded from these figures. In addition, the Acquired Hotel Portfolio is committed under long-term land leases to minimum annual lease payments of approximately \$1,228.

*(b) Non-controlling interest*

Subsequent to March 31, 2002, the balance of the partnership units that represent the non-controlling interest was acquired for \$2,000.

**9. RELATED PARTY TRANSACTIONS**

*(a) Management agreement*

The Acquired Hotel Portfolio is subject to management agreements (the "Agreements") for hotel management and accounting services with Westmont Hospitality Management Limited (the "Manager"). The Manager is affiliated with an owner of the Acquired Hotel Portfolio. During the three months ended March 31, 2002, the fees charged pursuant to the Agreements were \$2,168 (2001 — \$2,200). During the year ended December 31, 2001, the fees charged pursuant to the Agreements were \$10,407 (2000 — \$10,419, 1999 — \$7,260). Included in accounts payable and other liabilities are amounts outstanding and due under these Agreements at March 31, 2002 totalling \$570 (December 31, 2001 — \$453, December 31, 2000 — \$472).

*(b) Insurance*

An affiliate of an owner of the Acquired Hotel Portfolio that provides management services to such owner, purchased general liability, property, environmental and other types of insurance coverage on behalf of the Acquired Hotel Portfolio. Insurance premiums of \$258 relating to this coverage were expensed for the three months ended March 31, 2002 (2001 — \$189). Insurance premiums of \$778 relating to this coverage were expensed for the year ended December 31, 2001 (2000 — \$651, 1999 — \$460).

*(c) Project management*

Global Hospitality Limited ("Global"), an affiliate of an owner of the Acquired Hotel Portfolio, provides project management and general contractor services for construction and renovation projects for certain of the properties comprising the Acquired Hotel Portfolio. Global's fees and expenses of approximately \$114 were incurred during the three months end March 31, 2002, and \$390 for the year ended December 31, 2001 (2000 — \$306) and have been capitalized with the improvements.

*(d) Guarantee fee*

Included in interest expense is \$375 for the three months ended March 31, 2002 (March 31, 2001 — \$426, and year ended December 31, 2001 — \$1,618, December 31, 2000 — \$2,784 and December 31, 1999 — \$nil) in guarantee fee paid to one of the shareholders of the Acquired Hotel Portfolio. The fee is calculated at 2% of a portion of the outstanding loan balance on a monthly basis.

*(e) Financing fees*

An affiliate of an owner of the Acquired Hotel Portfolio received financing fees from the Acquired Hotel Portfolio. These fees amounted to \$nil for the three months ended March 31, 2002 (year ended December 31, 2001 — \$239, December 31, 2000 — \$nil, and December 31, 1999 — \$3,516) and have been capitalized to deferred financing fees.

**ACQUIRED HOTEL PORTFOLIO**  
**NOTES TO COMBINED FINANCIAL STATEMENTS (Continued)**  
**As at March 31, 2002 (unaudited), and December 31, 2001 and 2000 and for**  
**the three months ended March 31, 2002 and 2001 (unaudited)**  
**and the years ended December 31, 2001, 2000 and 1999**  
**(all dollar amounts are in thousands)**

**10. INTEREST EXPENSE**

	<u>March 31,</u>		<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(unaudited)				
<b>Hotel Ownership</b>					
Mortgage and loan interest . . . . .	\$5,686	\$7,633	\$29,475	\$32,071	\$28,837
<b>Corporate</b>					
Unsecured portion of acquisition loan facility . . . . .	952	1,342	5,211	7,222	4,210
Senior unsecured notes . . . . .	—	—	—	—	2,784
Miscellaneous . . . . .	430	485	392	329	429
	<u>1,382</u>	<u>1,827</u>	<u>5,603</u>	<u>7,551</u>	<u>7,423</u>
	<u>\$7,068</u>	<u>\$9,460</u>	<u>\$35,078</u>	<u>\$39,622</u>	<u>\$36,260</u>

The Acquired Hotel Portfolio is exposed to interest rate risk related to its long-term debt. At March 31, 2002, the increase or decrease in annual interest expense costs on floating rate debt amounts to \$3,091 (March 31, 2001 — \$2,327, December 31, 2001 — \$2,959, December 31, 2000 — \$2,332, December 31, 1999 — \$2,170) per annum for each one percent change in interest rates.

**11. FRANCHISE BUSINESS INCOME**

	<u>March 31,</u>		<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(unaudited)				
Revenue . . . . .	\$684	\$577	\$ 4,288	\$ 3,757	\$ 3,253
Expenses . . . . .	531	377	2,661	2,347	1,982
Franchise business income . . . . .	<u>\$153</u>	<u>\$200</u>	<u>\$ 1,627</u>	<u>\$ 1,410</u>	<u>\$ 1,271</u>

**12. OTHER INCOME**

	<u>March 31,</u>		<u>December 31,</u>		
	<u>2002</u>	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(unaudited)				
Interest income . . . . .	\$ 9	\$ 30	\$ 102	\$ 652	\$ 848
Miscellaneous . . . . .	84	140	203	259	140
	<u>\$ 93</u>	<u>\$170</u>	<u>\$ 305</u>	<u>\$ 911</u>	<u>\$ 988</u>

**13. SEGMENTED INFORMATION**

The activities of the Acquired Hotel Portfolio have been determined to be conducted in a single business segment.

**APPENDIX A**  
**GLOSSARY OF TERMS**

In this prospectus, the following terms have the meanings set forth below:

“**1933 Act**” means the United States *Securities Act of 1933*, as amended.

“**Acquired Hotel Portfolio**” means, collectively, the 114 Canadian hotel properties in the Portfolio, the 50% interest in Choice Canada, various licence contracts, cash and current assets, as well as the assumption of certain mortgages and current liabilities, which the REIT and/or its subsidiaries will acquire, on Closing, from affiliates of the Whitehall Funds and Westmont Holdings.

“**Adjusted Unitholders’ Equity**” means, at any time, the aggregate of (i) the amount of Unitholders’ equity, and (ii) the amount of accumulated depreciation and amortization recorded in the books and records of InnVest REIT in respect of its properties, in each case calculated in accordance with GAAP.

“**Administrative Services Agreements**” means, collectively, the administrative services agreements to be dated as of the date of Closing between each of InnVest REIT and the Operator, and the Manager, as described under “Management of InnVest REIT — Administrative Services Agreements”.

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

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

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

“**Audit Committee**” means the audit committee of the Board of Trustees, as described under “Management of InnVest REIT — Committees — Audit Committee”.

“**CCRA**” means the Canada Customs and Revenue Agency.

“**CDS**” means The Canadian Depository for Securities Limited.

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

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

“**Closing**” means the closing of the offering of Offered Units pursuant to this prospectus and related transactions described in this prospectus.

“**Compensation and Corporate Governance Committee**” means the compensation and governance committee of the Board of Trustees as described under “Management of InnVest REIT — Committees — Compensation and Corporate Governance Committee”.

“**Declaration of Trust**” means the amended and restated declaration of trust dated July 18, 2002, as the same may be amended by supplemental declarations from time to time, as described under “Declaration of Trust and Description of Units”.

“**Deferred Income Plans**” means, collectively, trusts governed by registered retirement savings plans, registered retirement income funds and deferred profit sharing plans, each as defined in the Tax Act.

“**Distributable Income**” means net income of InnVest 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 expenses, 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, the interest on convertible debentures that is not included in the computation of net income and any other adjustments determined by the Trustees in their discretion.

“**Distribution Date**” means on or about the 15<sup>th</sup> day of each month, beginning the second month following the month during which Closing occurs.

“**Executive Incentive Program**” means the long term incentive plan of InnVest REIT providing for the issuance, from time to time at the option of the Trustees, of phantom units.

“**Existing Management Agreements**” means the hotel management agreements currently existing between an affiliate of the Manager, W-Westmont and certain subsidiaries of W-Westmont, as they will be assigned to the Manager and amended at Closing, in respect of the day-to-day management of the Hotel Businesses.

“**Existing Mortgages**” means the mortgages to which the hotels in the Portfolio will be subject immediately following Closing excluding mortgages registered in connection with the New Credit Facilities.

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

“**full service hotel**” means any hotel property that is not a “limited service hotel” and, more particularly, refers to a hotel property that offers a range of ancillary facilities and amenities (*e.g.*, restaurants, lounges, banquet and conference facilities, health clubs, pools or other recreational facilities).

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

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

“**GS Group**” means The Goldman Sachs Group, Inc.

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

“**Hotel Properties**” means, collectively, the real property, buildings, fixtures (including attached equipment) and leasehold interests, if any, in the 114 hotel properties (excluding the Hotel Businesses) described under “Assets of InnVest REIT — Hotel Portfolio Overview”, and, where the context requires, includes additional hotel properties acquired by InnVest REIT after Closing.

“**Independent Trustee**” means a Trustee who is “unrelated” as defined in section 474 of The Toronto Stock Exchange Company Manual (guidelines on corporate governance). A person serving as a nominee of the Whitehall Funds or the Westmont Group pursuant to a right to appoint such person under the Declaration of Trust is deemed not to be an Independent Trustee.

“**Independent Trustee Matters**” means those decisions which require the approval of the Independent Trustees, as set out under “Management of InnVest REIT — Independent Trustee Matters”.

“**Investment Committee**” means the investment committee of the Board of Trustees, as described under “Management of InnVest REIT — Committees — Investment Committee”.

“**InnVest Properties**” means InnVest Properties Corp., a successor by amalgamation to W-Westmont.

“**Lead Underwriters**” means RBC Dominion Securities Inc. and Goldman Sachs Canada Inc.

“**limited service hotel**” refers to a hotel property without, or with only limited, food and beverage or other ancillary services (*e.g.*, restaurants, lounges, banquet and conference facilities or recreational facilities), which generate substantially all revenues from guest room rentals and tend to target more price-sensitive segments of the market.

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

“**Maple Leaf**” means Maple Leaf Investment Holdings, L.P.

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

“**Net Operating Cash Flow**” means the cash flow from the Portfolio, after certain deductions stipulated in the Master Hotel Management Agreement.

“**New Credit Facilities**” means the Term Credit Facility and the Operating Facility.

“**Non-Competition Agreements**” means the non-competition agreements to be dated as of the date of Closing to be entered into between InnVest REIT and each of the Restricted Parties, as described under “Non-Competition Arrangements”.

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

“**Offered Units**” means the 30,000,000 Units to be issued by InnVest REIT pursuant to the offering under this prospectus.

“**Operating Facility**” means the credit facility in favour of InnVest REIT from a Canadian chartered bank, as described under “Financing Arrangements — New Credit Facilities — Operating Facility”.

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

“**Over-Allotment Option**” means the option granted by the REIT to the Underwriters exercisable for a period of 30 days after Closing to purchase up to 3,000,000 Units on the same terms as the offering of Offered Units solely to cover over-allotments, if any.

“**PKF**” means PKF Consulting Inc., a Toronto-based management consultancy specializing in the hospitality, real estate and tourism industries.

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

“**Promoters**” means, collectively, Whitehall XI, Maple Leaf and Maple Leaf Investments, L.P.

“**Property NOI (Pre-Reserve)**” means hotel revenues less hotel expenses (including operating expenses, rent, insurance and management fees but excluding depreciation) and before a reserve for replacement of furniture, fixtures and equipment. Property NOI (Pre-Reserve) is equal to operating income as shown on the financial statements included in this prospectus.

“**Registration Rights Agreement**” means the registration rights agreement to be dated as of the date of Closing between InnVest REIT, the Whitehall Funds, Maple Leaf and a lender to the Whitehall Funds as described under “Acquisition of the Portfolio”.

“**Regulations**” means regulations made under the Tax Act.

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

“**RESPs**” means registered education savings plans, as defined in the Tax Act.

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

“**Special Resolution**” means a resolution passed by a majority of not less than 66⅔% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66⅔% of the Units entitled to be voted on such resolution.

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

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

“**Tax Proposals**” means 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 of this prospectus.

“**Term Credit Facility**” means the credit facility in favour of InnVest REIT from a Canadian financial institution, as described under “Financing Arrangements — New Credit Facilities — Term Credit Facility”.

“**Trust Indenture**” means the trust indenture to be dated as of the date of Closing between InnVest REIT and a Canadian trust company, as trustee, providing for the creation and issuance of the Vendor Convertible Debentures.

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

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

“**Underwriters**” means the Lead Underwriters, CIBC World Markets Inc., BMO Nesbitt Burns Inc., Scotia Capital Inc., TD Securities Inc., National Bank Financial Inc. and Raymond James Ltd.

“**Underwriting Agreement**” means the underwriting agreement dated July 18, 2002 between InnVest REIT, the Promoters and the Underwriters.

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

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

“**Valuation**” means the valuation of the Portfolio, the 50% interest in Choice Canada and certain related assets as at March 31, 2002 prepared by the Valuator in respect of the Portfolio and dated June 6, 2002.

“**Valuator**” means KPMG LLP.

“**Vendor Convertible Debentures**” means the \$75 million aggregate principal amount of unsecured subordinated convertible debentures of InnVest REIT due June 30, 2007 to be issued to the Whitehall Funds at Closing.

“**Vendor Units**” means the 11,068,910 Units to be issued to the Whitehall Funds, Maple Leaf and a Canadian chartered bank at Closing.

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

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

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

“**Whitehall Funds**” means, collectively, Whitehall XI, Whitehall Street Real Estate Limited Partnership V, Whitehall Street Real Estate Limited Partnership IX and certain of their affiliates.

“**Whitehall Restricted Parties**” means, collectively, Whitehall XI, Whitehall Street Real Estate Limited Partnership V, Whitehall Street Real Estate Limited Partnership IX, Whitehall Street Global Real Estate Limited Partnership 2001, Whitehall Parallel Global Real Estate Limited Partnership 2001, Whitehall Street International Real Estate Limited Partnership 2001 and any real estate opportunity funds established by Goldman, Sachs & Co. and its subsidiaries after the date of Closing. No other person will be considered a “Whitehall Restricted Party” even if it is a Related Party of one of the Whitehall Restricted Parties.

“**Whitehall XI**” means Whitehall Street Real Estate Limited Partnership XI.

“**W-Westmont**” means W-Westmont Corp.

**APPENDIX B**  
**HOTEL PROPERTY LOCATIONS**

**Comfort Inns<sup>(1)</sup>**

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Alma Comfort Inn . . . . .	870 avenue du Pont Sud Alma, Quebec	1989	61
Amherst Comfort Inn . . . . .	143 South Albion Street Amherst, Nova Scotia	1988	61
Ancienne-Lorette Comfort Inn . . . . .	1255 boulevard Duplessis Quebec City, Quebec	1985	59
Baie-Comeau Comfort Inn . . . . .	745 boulevard Lafleche Baie-Comeau, Quebec	1989	61
Beauport Comfort Inn . . . . .	240 boulevard Ste. Anne Beauport, Quebec	1990	80
Boucherville Comfort Inn . . . . .	96 boul. de Mortagne Boucherville, Quebec	1986	100
Brampton Comfort Inn . . . . .	5 Rutherford Road South Brampton, Ontario	1986	108
Brandon Comfort Inn . . . . .	925 Middleton Avenue Brandon, Manitoba	1987	81
Bridgewater Comfort Inn . . . . .	49 North Street Bridgewater, Nova Scotia	1990	62
Brossard Comfort Inn . . . . .	7863 boulevard Taschereau Brossard, Quebec	1988	100
Burlington Comfort Inn . . . . .	3290 South Service Road Burlington, Ontario	1982	99
Cambridge Comfort Inn . . . . .	220 Holiday Inn Drive Cambridge, Ontario	1986	83
Campbellton Comfort Inn . . . . .	111 Val D'Amour Road Campbellton, New Brunswick	1988	60
Charlottetown Comfort Inn . . . . .	112 Trans Canada Hwy. Charlottetown, Prince Edward Island	1989	81
Chatham Comfort Inn . . . . .	1100 Richmond Street Chatham, Ontario	1986	81
Chicoutimi Comfort Inn . . . . .	1595 boulevard Talbot Chicoutimi, Quebec	1988	81
Chilliwack Comfort Inn . . . . .	45405 Luckakuck Way Chilliwack, British Columbia	1991	83
Cobourg Comfort Inn . . . . .	121 Densmore Road Cobourg, Ontario	1988	62
Corner Brook Comfort Inn . . . . .	41 Maple Valley Road Corner Brook, Newfoundland	1988	78
Dartmouth Comfort Inn . . . . .	456 Windmill Road Dartmouth, Nova Scotia	1984	81
Dorval Comfort Inn . . . . .	340 avenue Michel Jasmin Dorval, Quebec	1988	98
Downsview Comfort Inn . . . . .	66 Norfinch Drive North York, Ontario	1983	144

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Drummondville Comfort Inn . . . . .	1055 rue Hains Drummondville, Quebec	1985	59
Dryden Comfort Inn . . . . .	522 Government Road Dryden, Ontario	1988	62
Edmonton Comfort Inn . . . . .	17610 - 100 <sup>th</sup> Avenue Edmonton, Alberta	1990	100
Edmundston Comfort Inn . . . . .	5 Bateman Avenue Edmundston, New Brunswick	1987	81
Fredericton Comfort Inn . . . . .	255 Prospect Street West Fredericton, New Brunswick	1984	101
Gatineau Comfort Inn . . . . .	630 boulevard la Gappe Gatineau, Quebec	1988	81
Guelph Comfort Inn . . . . .	480 Silvercreek Parkway Guelph, Ontario	1986	80
Hamilton Comfort Inn . . . . .	173/183 Centennial Parkway North Hamilton, Ontario	1984	60
Huntsville Comfort Inn . . . . .	86 King William Street Huntsville, Ontario	1989	73
Kanata Comfort Inn . . . . .	222 Hearst Way Kanata, Ontario	1984	146
Kapuskasing Comfort Inn . . . . .	172 Government Road East Kapuskasing, Ontario	1987	66
Kenora Comfort Inn . . . . .	1230 Highway 17 East Kenora, Ontario	1990	76
Kingston Comfort Inn (Warne Crescent) <sup>(2)</sup> . .	55 Warne Crescent Kingston, Ontario	1987	103
Kirkland Lake Comfort Inn . . . . .	455 Government Road West Kirkland Lake, Ontario	1987	65
Laval Comfort Inn . . . . .	2055 Autoroute des Laurentides Laval, Quebec	1988	121
Lévis Comfort Inn . . . . .	10 du Vallon est Levis, Quebec	1988	100
London Comfort Inn . . . . .	1156 Wellington Road London, Ontario	1982	79
Midland Comfort Inn . . . . .	980 King Street Midland, Ontario	1990	60
Miramichi Comfort Inn . . . . .	201 Edward Street Miramichi, New Brunswick	1988	69
Mississauga Comfort Inn <sup>(3)</sup> . . . . .	1500 Matheson Boulevard East Mississauga, Ontario	1982	121
Moncton Magnetic Hill Comfort Inn . . . . .	2495 Mountain Road Moncton, New Brunswick	1984	59
Moncton Maplewood Comfort Inn . . . . .	20 Maplewood Drive Moncton, New Brunswick	1988	78
New Glasgow Comfort Inn . . . . .	740 Westville Road New Glasgow, Nova Scotia	1987	62
Newmarket Comfort Inn . . . . .	1230 Journey's End Circle Newmarket, Ontario	1988	102

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Orillia Comfort Inn . . . . .	75 Progress Drive Orillia, Ontario	1989	80
Oshawa Comfort Inn . . . . .	605 Bloor Street West Oshawa, Ontario	1984	80
Ottawa East Comfort Inn . . . . .	1252 Michael Street Ottawa East, Ontario	1982	69
Owen Sound Comfort Inn . . . . .	995 9 <sup>th</sup> Avenue East Owen Sound, Ontario	1987	60
Parry Sound Comfort Inn . . . . .	120 Bowes Street Parry Sound, Ontario	1987	61
Pembroke Comfort Inn . . . . .	959 Pembroke Street East Pembroke, Ontario	1985	61
Pickering Comfort Inn . . . . .	533 Kingston Road Pickering, Ontario	1985	147
Pointe Claire Comfort Inn . . . . .	700 boulevard St. Jean Pointe Claire, Quebec	1985	100
Prince Albert Comfort Inn . . . . .	3863 2 <sup>nd</sup> Avenue West Prince Albert, Saskatchewan	1987	62
Regina Comfort Inn . . . . .	3221 East Eastgate Drive Regina, Saskatchewan	1986	99
Rimouski Comfort Inn . . . . .	455 boulevard St-Germain ouest Rimouski, Quebec	1988	81
Rivière-du-Loup Comfort Inn . . . . .	85 boulevard Cartier Rivière-du-Loup, Quebec	1988	69
Rouyn-Noranda Comfort Inn . . . . .	1295 avenue Larivière Rouyn-Noranda, Quebec	1988	80
Saint John Comfort Inn . . . . .	1155 Fairville Blvd. St. John, New Brunswick	1984	59
Saskatoon Comfort Inn . . . . .	2155 Northridge Drive Saskatoon, Saskatchewan	1986	80
Sault Ste. Marie Comfort Inn . . . . .	333 Great Northern Road Sault Ste. Marie, Ontario	1983	82
Sept-Iles Comfort Inn . . . . .	854 boulevard Laure Sept-Iles, Quebec	1989	61
Sherbrooke Comfort Inn . . . . .	4295 boulevard Bourque Sherbrooke, Quebec	1985	59
Simcoe Comfort Inn . . . . .	85 The Queensway East Simcoe, Ontario	1986	61
St. Catharines Comfort Inn . . . . .	2 Dunlop Drive St. Catharines, Ontario	1987	100
Ste. Foy Comfort Inn . . . . .	7320 boulevard Wilfrid-Hamel Sainte Foy, Quebec	1988	79
Sudbury 2 <sup>nd</sup> Avenue Comfort Inn . . . . .	440 2 <sup>nd</sup> Avenue North Sudbury, Ontario	1989	81
Sudbury Regent Street Comfort Inn . . . . .	2171 Regent Street South Sudbury, Ontario	1986	80
Swift Current Comfort Inn . . . . .	1510 South Service Road East Swift Current, Saskatchewan	1987	74

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Sydney Comfort Inn . . . . .	368 Kings Road Sydney, Nova Scotia	1987	62
Thetford Mines Comfort Inn . . . . .	123 boulevard Smith Sud Thetford Mines, Quebec	1989	63
Thunder Bay Comfort Inn . . . . .	660 West Arthur Street Thunder Bay, Ontario	1987	80
Timmins Comfort Inn . . . . .	939 Algonquin Boulevard East Timmins, Ontario	1987	91
Trenton Comfort Inn . . . . .	68 Monogram Place Trenton, Ontario	1988	76
Trois-Rivières Comfort Inn . . . . .	6255 rue Corbeil Trois-Rivières, Quebec	1988	80
Truro Comfort Inn . . . . .	12 Meadow Drive Truro, Nova Scotia	1988	81
Val d'Or Comfort Inn . . . . .	1665 Troisième Avenue Val d'Or, Quebec	1988	81
Waterloo Comfort Inn . . . . .	190 Weber Street North Waterloo, Ontario	1987	85
Windsor Dougal Avenue Comfort Inn . . . . .	2955 Dougall Avenue Windsor, Ontario	1984	80
Windsor Huron Church Comfort Inn . . . . .	2765 Huron Church Road Windsor, Ontario	1987	100
Winnipeg Airport Comfort Inn . . . . .	1770 Sargent Avenue Winnipeg, Manitoba	1987	81
Winnipeg South Comfort Inn . . . . .	3109 Pembina Highway Winnipeg, Manitoba	1986	85
Yarmouth Comfort Inn . . . . .	96 Starr's Road Yarmouth, Nova Scotia	1988	80

**Quality Suites<sup>(1)</sup>/Quality Inns**

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Carlingview Quality Suites <sup>(4)</sup> . . . . .	262 Carlingview Drive Toronto, Ontario	1989	254
Laval Quality Suites . . . . .	2035 Autoroute des Laurentides Laval, Quebec	1991	115
London Quality Suites . . . . .	1120 Dearness Drive London, Ontario	1990	118
Montreal Quality Inn <sup>(5)</sup> . . . . .	1214 rue Crescent Montreal, Quebec	1966	96
Pointe Claire Quality Suites <sup>(6)</sup> . . . . .	6300 Trans Canada Hwy. Pointe Claire, Quebec	1990	162
Quebec City Quality Suites <sup>(7)</sup> . . . . .	1600 rue Bouvier Quebec City, Quebec	1989	119
Whitby Quality Suites . . . . .	1700 Champlain Avenue Whitby, Ontario	1990	104
Windsor Quality Suites . . . . .	250 Dougall Avenue Windsor, Ontario	1990	128

### Quality Hotels<sup>(1)</sup>

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Anjou Quality Hotel <sup>(8)</sup> . . . . .	8100 avenue Neuville Anjou, Quebec	1990	158
Bloor Quality Hotel . . . . .	280 Bloor Street West Toronto, Ontario	1990	209
Lombard Street Quality Hotel Toronto <sup>(9)</sup> . . . . .	111 Lombard Street Toronto, Ontario	1988	196
Montréal Quality Hotel . . . . .	3440 avenue du Parc Montreal, Quebec	1989	140
Ottawa Quality Hotel . . . . .	290 Rideau Street Ottawa, Ontario	1989	212
St. John's Quality Hotel . . . . .	2 Hill O'Chips St. John's, Newfoundland	1990	160

### Travelodges<sup>(10)</sup>

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Travelodge Burlington . . . . .	950 Walkers Line Burlington, Ontario	1985	116
Travelodge Calgary Airport . . . . .	2750 Sunridge Boulevard Northeast Calgary, Alberta	1982	203
Travelodge Calgary — Macleod Trail . . . . .	9206 Macleod Trail South Calgary, Alberta	1980	254
Travelodge Edmonton South . . . . .	10320 - 45 <sup>th</sup> Avenue South Edmonton, Alberta	1977	219
Travelodge Edmonton West <sup>(11)</sup> . . . . .	18320 Stony Plain Road Edmonton, Alberta	1980	220
Travelodge Ingersoll . . . . .	20 Samnah Crescent Ingersoll, Ontario	1989	98
Travelodge North Bay . . . . .	1525 Seymour Street North Bay, Ontario	1989	100
Travelodge North York . . . . .	50 Norfinch Drive Toronto, Ontario	1986	183
Travelodge Oshawa . . . . .	940 Champlain Avenue Oshawa, Ontario	1989	120
Travelodge Ottawa East . . . . .	1486 Innes Street Gloucester, Ontario	1984	129
Travelodge Regina East . . . . .	1110 East Victoria Avenue Regina, Saskatchewan	1979	181
Travelodge Scarborough . . . . .	20 Milner Business Court Toronto, Ontario	1984	155
Travelodge Sudbury . . . . .	1401 Paris Street Sudbury, Ontario	1990	140

**Other Hotels**

<u>Hotel</u>	<u>Address</u>	<u>Year Built</u>	<u>Guest Rooms</u>
Best Western North Bay <sup>(12)</sup> . . . . .	700 Lakeshore Drive North Bay, Ontario	1977	130
Mississauga Ramada Inn <sup>(10)</sup> . . . . .	5599 Ambler Drive Mississauga, Ontario	1982	222
North York Holiday Inn Express <sup>(5)</sup> . . . . .	30 Norfinch Drive North York, Ontario	1989	163

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- (1) All of the Comfort Inns, Quality Suites and Quality Hotels (other than the Lombard Street Quality Hotel Toronto) were indirectly acquired by the Whitehall Funds and Westmont Holdings through the acquisition of UniHost Corporation, a TSX-listed public company, completed in May 1999.
  - (2) The REIT will own a 50% interest held pursuant to a co-ownership arrangement. The remaining 50% is held by unrelated third parties.
  - (3) The land is leased under a ground lease expiring September 30, 2031.
  - (4) The land is leased under a ground lease expiring January 31, 2088.
  - (5) The hotels now operating as the Montreal Quality Inn and the North York Holiday Inn Express were indirectly acquired by the Whitehall Funds and Westmont Holdings in a private transaction completed in January 1995.
  - (6) The land is leased under a ground lease expiring August 29, 2064.
  - (7) The land is leased under a ground lease expiring October 31, 2062.
  - (8) The land is leased under a ground lease expiring May 19, 2038.
  - (9) The hotel now operating as the Lombard Street Quality Hotel Toronto was indirectly acquired by the Whitehall Funds and Westmont Holdings in a private transaction completed in July 1995.
  - (10) All of the Travelodges and the hotel now operating as the Mississauga Ramada Inn were indirectly acquired by the Whitehall Funds and Westmont Holdings in a transaction completed in March 1998.
  - (11) The REIT will own a 50% interest in the land pursuant to a co-ownership arrangement. The remaining 50% is held by unrelated third parties. All of the building is leased under a lease expiring June 14, 2023.
  - (12) The Best Western North Bay was indirectly acquired by one of the Whitehall Funds in a private transaction completed in January 1997.

**CERTIFICATES OF INNVEST REIT AND THE PROMOTERS**

Dated: July 18, 2002

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part II of the *Securities Act* (Prince Edward Island), by Section 63 of the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick) and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

**INNVEST REAL ESTATE INVESTMENT TRUST**

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

(Signed) TAMARA L. LAWSON  
Chief Financial Officer

On behalf of the Board of Trustees

(Signed) MORTON GROSS  
Trustee

(Signed) FRANK ANDERSON  
Trustee

WHITEHALL STREET REAL ESTATE  
LIMITED PARTNERSHIP XI  
(by its General Partner, WH Advisors, L.L.C. XI)  
(as Promoter)

MAPLE LEAF INVESTMENT HOLDINGS, L.P.  
(by its General Partner, Maple Leaf Investment  
Holdings GP, Inc.)  
(as Promoter)

(Signed) BRIAN C. COLLYER

(Signed) MAJID MANGALJI  
President

MAPLE LEAF INVESTMENTS, L.P.  
(by its General Partner, Maple Leaf GP, Inc.)  
(as Promoter)

(Signed) MAJID MANGALJI  
President

**CERTIFICATE OF THE UNDERWRITERS**

Dated: July 18, 2002

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 8 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part II of the *Securities Act* (Prince Edward Island), by Section 64 of the *Securities Act* (Nova Scotia), by Section 13 of the *Security Frauds Prevention Act* (New Brunswick) and by Part XIV of the *Securities Act* (Newfoundland) and the respective regulations thereunder. To our knowledge, this prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

RBC DOMINION SECURITIES INC.

GOLDMAN SACHS CANADA INC.

By: (Signed) RICHARD N. MATHESON

By: (Signed) MARK CARNEY

CIBC WORLD MARKETS INC.

By: (Signed) ALLAN S. KIMBERLEY

BMO NESBITT BURNS INC.

SCOTIA CAPITAL INC.

TD SECURITIES INC.

By: (Signed) JAMES P. BOWLAND

By: (Signed) STEPHEN SENDER

By: (Signed) ANDREW G. PHILLIPS

NATIONAL BANK FINANCIAL INC.

RAYMOND JAMES LTD.

By: (Signed) CRAIG SHANNON

By: (Signed) ROLAND A. CARDY



# InnVest

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