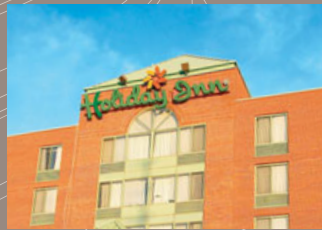


Strength through diversification



CORPORATE PROFILE

InnVest Real Estate Investment Trust owns 124 hotels in every province in Canada, the largest portfolio of hotels in the country. We also own a 50% interest in Choice Hotels Canada Inc., the largest franchiser of hotels in Canada with one of the strongest global reservation and marketing networks.

OBJECTIVES

- (1) To provide unitholders with stable and growing cash distributions.
- (2) To maximize the long-term unit value of the Trust by actively managing our hotels.
- (3) To make selective acquisitions that are accretive to earnings and cash flow.

PERFORMANCE

- (1) Maintained monthly cash distributions at \$0.09375 per unit.
- (2) Invested \$13.6 million to ensure our properties remain competitive.
- (3) Acquired 10 properties, which contributed to our growth in earnings and distributable income in 2004 while expanding our presence in the mid-scale with food and beverage sector.

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In 2004 InnVest achieved growth and broader diversification in our portfolio, which contributed to growth in income and stability in distributions.



2004 OPERATING HIGHLIGHTS

- ◆ Performance improved steadily as the economy and demand for lodging strengthened
- ◆ Maintained monthly distributions at \$0.09375 per unit
- ◆ Expanded our portfolio of hotels with the purchase of 10 properties in Alberta, Nova Scotia, Ontario and Saskatchewan
- ◆ Maintained higher revenue per available room than our peers in our competitive markets
- ◆ Launched more aggressive sales and marketing efforts and improved occupancy
- ◆ Invested \$13.6 million to improve and maintain the quality of our hotels

2005 PRIORITIES

- ◆ Maximize revenues through continuing to achieve premium RevPAR through higher occupancies and room rates
- ◆ Continue to control operating costs
- ◆ Maintain quality of properties through ongoing capital improvement program
- ◆ Acquire hotels in the limited service and mid-market hotel segments that are accretive to earnings and cash flow
- ◆ Maximize results in the short term while continuing to execute our strategy to build value over the long term.

1

DIVERSIFIED BY BRAND

InnVest owns 124 internationally branded, primarily limited-service hotels. This brand diversification broadens our market reach while international branding brings name recognition, a robust central reservations system, marketing and customer loyalty programs and quality standards.

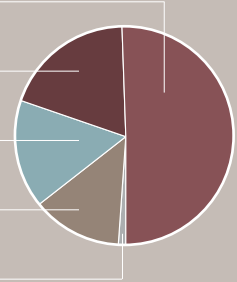
COMFORT INN 50.8%

QUALITY INN 19.0%

TRAVELODGE 16.0%

HOLIDAY INN 13.2%

BEST WESTERN 1.0%



* Rooms by brand

LOCATIONS

AMENITIES



Comfort Inn is Canada's leading mid-scale limited service hotel brand with 141 locations, approximately 60% owned by InnVest. Comfort Inns are typically two-storey, interior corridor buildings located in suburban areas with easy access to primary highways.

InnVest's Comfort Inns range in size from 59 to 147 guest rooms, most with cable or satellite television, in-room movies, desks and data ports. In 2005 high-speed in-room Internet and continental breakfast amenities are being implemented as brand standards.



Quality Suites / Quality Inns have 96 to 254 guest suites/rooms. Suites generally consist of two rooms of approximately 460 square feet. Quality Hotels have 140 to 222 guest rooms. Hotel amenities usually include meeting space, a breakfast room and guest laundry services.

Bedroom amenities usually include cable or satellite television, in-room movies, hair dryers, high-speed Internet and in-room coffee makers. At Quality Suites bedrooms also have separate dressing areas with a mirrored vanity and closet. The living room typically has a sofa bed, desk and a second telephone and television.



Travelodges have between 98 and 254 guest rooms. Eight of the Travelodges are multi-storey, mid-scale hotels in urban areas; the rest are two-storey, interior corridor buildings in suburban areas with access to major highways.

Guest room amenities typically include cable or satellite television, in-room movies, work desks, data ports, in-room coffee makers and hair dryers.



InnVest's portfolio includes hotels operated under the Holiday Inn, Holiday Inn Express and Best Western flags. The Holiday Inns range in size from 136 to 240 guest rooms.

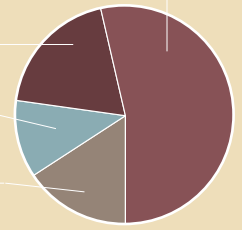
Holiday Inns are full-service hotels offering guests many features to make their stay more enjoyable including restaurants and room service, a lounge, swimming pool, fitness center, 24-hour business services and meeting facilities.

2

DIVERSIFIED BY GEOGRAPHY

The hotel portfolio's geographic diversification reduces reliance on any location or region. We have hotels in every province across Canada, and most major urban areas.

ONTARIO	53.6%
QUEBEC	19.2%
WESTERN	15.8%
ATLANTIC	11.4%



* Guest rooms by location



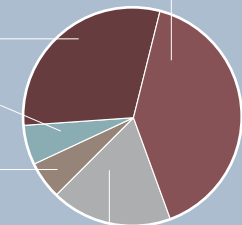
Our diversification has historically provided relative stability to our operating and financial performance.

3

DIVERSIFIED BY CUSTOMER

Our hotels attract a broad mix of customers from Canada and abroad including corporate business, government, group, leisure, and athletic teams. This diversification of customers brings stability to our long-term revenue.

CORPORATE	40.8%
LEISURE	30.0%
TRANSIENT	5.9%
GOVERNMENT	5.6%
OTHER	17.7%



* Room revenue by source. Other includes miscellaneous market segments tracked by InnVest.



Kenneth Gibson
President and Chief Executive Officer

“The year 2004 was one of growth for InnVest. The 10 properties that we acquired early in the year deepened our diversification by brand and customer, enhancing the improved performance we enjoyed in our original portfolio of hotels.”

Economic growth in both Canada and the United States drove demand for lodging from both leisure and business travelers. InnVest’s ability to capture a growing share of the increasing market along with our well diversified portfolio within a stable segment of the lodging industry allowed InnVest to outperform its competitors and maintain long-term stability in distributions to unitholders.

In 2004, InnVest’s distributable income increased 12.2% to \$44.3 million from \$39.5 million in 2003. We continue to achieve higher revenue per available room, RevPAR, and average daily rates, ADRs, than our peers in our competitive markets. InnVest’s RevPAR growth for the original portfolio of 114 hotels was 3.1%; RevPAR growth at the 10 acquired hotels acquired was 4.6% during the months owned by InnVest.

This growth was driven by a 2.0% increase in occupancy to 61.5% and a 1.1% increase in ADR to \$82.67 in our original portfolio. In the acquired hotels ADR was stable while occupancy increased by 4.7% to 67.3%.

PROVIDING STABLE DISTRIBUTIONS

Our performance led to an increase in distributable income per unit by 2.8% to \$0.986 from \$0.959 in 2003. We are pleased with our performance and our ability to deliver on our promise of growth and stability.

To achieve stability in cash distributions, our payout ratio exceeded distributable income in 2004, made possible by our financial structure, distribution re-investment plan, strong cash position and longer-term prospects for cash flow. We are committed to conservative financial management, and since the inception of the REIT, our cash distributions to unitholders have only marginally exceeded distributable income.

Quality Suites
Toronto Airport



An important goal has been – and remains – stable distributions. We are convinced the lodging environment will continue to recover, and the performance of our portfolio will benefit from this industry trend.

ACHIEVING GROWTH

InnVest enjoyed RevPAR improvements at most of the 124 properties in our portfolio in Canada, with the performance of the 10 properties that we acquired early in 2004 making a significant contribution to unitholder value. The purchase of these properties also allowed us to further diversify our portfolio and expand our presence in the mid-scale with food and beverage sector. Early in the second quarter, we acquired the 196-room Holiday Inn Dartmouth, Nova Scotia at a cost of \$8.8 million. Soon after, we acquired eight of nine mid-market hotels with 1,332 rooms, and at the beginning of the third quarter we acquired the ninth hotel. The total cost of the nine hotels was \$111.5 million. Seven of these hotels were Holiday Inns located in Ontario, with one Holiday Inn located in Alberta and one Quality Hotel in Saskatchewan. The acquisitions have proven to be accretive to unitholders.

The hotels were integrated seamlessly into the InnVest portfolio, a process made particularly smooth because an affiliate of Westmont previously managed the hotels and little change occurred upon the change in ownership. The acquired hotels also brought a deeper brand, regional and customer diversification.

We saw substantial improvement in those regions, particularly the Greater Toronto Area, the GTA, that were most affected by SARS in 2003. RevPAR at our hotels in the GTA increased by 14.7% with RevPAR across our Ontario portfolio increasing 5.3%. Performance at our hotels in Quebec was stable while RevPAR improved by 1.0% in the Atlantic region and 2.9% in Western Canada.

InnVest
has delivered on
its promise to deliver
growth and stability.





Holiday Inn Express
North York

Our strong performance in 2004 arises from our ability to maintain a market share premium through aggressive sales and marketing efforts, including expanded guest loyalty programs. The marketing costs associated with this program along with the implementation of a new computer property management system and the free continental breakfast we began to offer at a number of hotels caused the rooms operating margin on the original portfolio to decline slightly. The operating profit margin on the acquired hotels was stable.

With our focus on the long term, we increased our investments in capital improvements to \$13.6 million from \$7.7 million in 2003. We anticipate further expenditures of \$18 million to \$20 million in 2005. The increase reflects costs associated with the Comfort Inn re-imaging program and our commitment to maintaining the quality of our portfolio. This program along with the enhanced customer loyalty program and the affiliation we established with Aeroplan® in 2004 will help to ensure our Comfort Inns and Quality Hotels maintain their competitive advantage and premium market share.

CHOICE HOTELS CANADA

Our investment in Choice Hotels Canada Inc. continued to benefit InnVest in 2004. Choice Canada has approximately 280 hotels operating or under development within three distinct market segments: economy, mid-market with limited service, and mid-market with full service. Further, Choice Canada continued to grow through the establishment of 15 new franchises in 2004.

Financial Highlights

For the years ended December 31

Financial	2004	2003	% change
In thousands of dollars except per unit and operating amounts			
Operating revenues	\$ 279,297	\$ 224,216	24.6%
Net income	31,236	10,858	187.7%
Distributable Income	44,269	39,455	12.2%
Distributions	50,164	46,280	8.4%
Net income per unit - basic	0.457	0.071	543.7%
Distributable income per unit - basic	0.994	0.959	3.6%
Distributions per unit	1.125	1.125	—
Operating			
Occupancy	62.0%	60.3%	2.8%
Average Daily Rate	\$ 85.67	\$ 81.77	4.8%
Revenue Per Available Room	\$ 53.12	\$ 49.28	7.8%

CAPITAL MARKETS AND FINANCING ACTIVITY

To fund the purchase of the hotels in 2004, InnVest raised \$47.5 million by issuing 4,187,000 trust units at \$11.35 per unit and \$57.5 million through the issue of subordinated unsecured convertible debentures with a coupon of 6.25%, convertible at the option of the holder into Trust units at \$12.50 per unit. The securities were issued through a bought deal that closed April 2, 2004.

InnVest also tapped the commercial mortgage-backed securities market for the first time, arranging \$61.4 million in fixed rate mortgage financing through a major lender. The financing carries a 10-year term and effective interest rates between 6.60% and 6.65%.

SOUND CORPORATE GOVERNANCE

InnVest is committed to sound corporate governance. We closely monitor new and proposed corporate governance guidelines and regulatory policy for publicly listed companies. This not only ensures that we remain in compliance; we believe that constant improvements to our corporate governance are important to fostering long-term success and enhancing unitholder value.

The majority of our trustees are independent. All are experienced business leaders representing various industries and professional backgrounds, with particular strength in the real estate and the hotel industry.

We have approximately 7.5 years remaining on a 10-year master hotel management agreement with Westmont Hospitality Canada Limited, an affiliate of one of the largest privately-held hotel businesses in the world. The agreement was put in place when InnVest was formed and is on competitive market terms. We have a non-competition contract with Westmont and Goldman Sachs Whitehall Funds under which it must give InnVest first option on Canadian limited service acquisitions.

The acquisition of 10 hotels in 2004 further diversified our regional, brand and market presence.





Quality Hotel
Lombard Street

InnVest is governed by a Declaration of Trust designed to ensure conservative financial management and define operating parameters that reduce performance risks to a greater extent than most corporations.

GROWTH AND STABILITY THROUGH DIVERSIFICATION

InnVest is well positioned to continue to provide Unitholders with stable income while increasing our income stream over time. We enjoy a number of competitive strengths that position it to achieve our business and acquisition strategies. InnVest's strengths include:

- ◆ High quality properties within the largest hotel portfolio in Canada,
- ◆ International brands which provide name recognition and a strong central reservation system driving revenue per available room,
- ◆ Portfolio diversification with hotel properties across the country and a mix of business and leisure customers contributing to performance stability,
- ◆ Experienced management which enables InnVest to maximize its performance,
- ◆ Well-balanced capital structure with conservative financial leverage and unused credit facilities, providing management with the flexibility to achieve established performance objectives.

The hotels in our 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. We attract diverse customers, including business travellers, leisure travellers, groups and corporate clients. This diversification has been a significant factor in providing relative stability to our operating and financial performance by limiting reliance on any one location or customer group.

CONTINUED FOCUS ON GROWTH

Looking ahead, hotel industry consultants Pennell Kerr Forster, PKF, predict that demand for lodging will grow by 2.5% in 2005 while growth in the supply of new rooms will continue to lag, perhaps growing by only 1.0% next year. This imbalance is expected to result in higher occupancies and opportunities to increase room rates.

We have four key operating strategies to ensure we participate in the industry's growth:

- ◆ Maximize the performance of each hotel by seeking maximum room and non-room revenues while controlling operating costs,
- ◆ Use yield management and market strategies to maximize RevPAR,
- ◆ Improve operating efficiencies and economies of scale,
- ◆ Continually maintain the quality of the portfolio to ensure they remain competitive.

At the same time, as business conditions continue to improve, we expect to see further consolidation in the industry. We continue to review acquisition opportunities that will build upon our existing diversification and strengthen our ability to grow distributable income. We are continually in discussion with the owners and developers of properties, and we have adequate financial resources to support the Trust's growth objectives.

Our focus remains on acquiring mid-market hotels, both in the limited service and full-service segments of the industry. These hotels have similar operating characteristics to our existing portfolio, such as low fixed costs; they serve broad market and customer segments; and they provide a breadth of growth opportunities for the Trust.

Over the past two and half years, we have demonstrated that we have a disciplined team and the corporate culture to deliver sustainable distributable income and long-term growth. I would like to thank our employees, the members of our Board of Trustees and our unitholders for the continued support. I believe we are positioned to continue to deliver industry-leading performance.

(Signed)

Kenneth Gibson
President and Chief Executive Officer
March 21, 2005

Our enhanced
customer loyalty programs
help to ensure
we maintain our
premium market share.





Our goal is to continue to improve our current corporate governance practices. We are in compliance with the TSX guidelines for corporate governance, and continue to monitor best practices.

TRUSTEES

The Board of Trustees is responsible for making significant decisions regarding the business and affairs of InnVest and establishes the business policies and standards for the Trust. InnVest's Board is made up of people who bring a depth and variety of professional experience and capabilities to their responsibilities at the Trust. At the end of 2004, we had seven Trustees on our Board, four were independent.

Majid Mangalji (2)

*Chairman of the Board of Trustees
President, Westmont Group*

Mr. Mangalji has been involved in all aspects of the development of the Westmont Group from a single hotel into one of the largest private hotel owner/operators in the world.

Frank Anderson, FCA (1. 2. 3.)

President, LIN Solutions, Inc.

Mr. Anderson was a senior partner of a major accounting firm until his retirement in 1999. He specialized in the retail, consumer products, real estate and advertising industries.

Brian C. Collyer (2)

*Vice President, Real Estate Principal Investment
Goldman Sachs & Co.*

Over the last 10 years, Mr. Collyer has managed the sale, joint venture or acquisition of more than US\$6 billion of Canadian and U.S. real estate assets for large public real estate companies.

Morton Gross, Q.C. (1. 2. 4.)

Senior Partner, Borden Ladner Gervais LLP

Mr. Gross practices in the areas of commercial and real estate law, including hotels and hospitality. He is also the Chair of his firm's National Real Estate Professional Group.

Michael P. Kitt (1. 2. 3. 4.)

*Executive Vice President Development
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.

Minhas N. Mohamed (1. 2. 3. 4.)

Managing Partner, MM Venture Partners

Mr. Mohamed is co-founder, President and Chief Executive Officer of MMV Financial Inc., which provides financing to technology and emerging growth companies in Canada and internationally.

Lauren J. Zucker (2)

*Vice President, Real Estate Principal Investment
Goldman, Sachs & Co.*

Ms. Zucker has spent time in the firm's New York and Hong Kong offices. She focuses on investing and managing the Whitehall Street Real Estate Funds.

1. Independent Trustee
2. Member of Investment Committee
3. Member of Audit Committee
4. Member of Compensation, Compliance and Governance Committee

CORPORATE GOVERNANCE

The governance of InnVest is the responsibility of the Board of Trustees and is delivered by three committees of the Board and InnVest's management. We have established governance policies and procedures that are regularly evaluated and modified to ensure effectiveness. InnVest's governance practices are in full compliance with the corporate governance guidelines of the Toronto Stock Exchange.

INVESTMENT COMMITTEE

The Investment Committee's primary duties and responsibilities include:

- ◆ Reviewing and approving or rejecting proposed acquisitions and dispositions of investments by the REIT,
- ◆ Authorizing proposed transactions, and
- ◆ Approving all financing arrangements and the assumption or granting of mortgages.

All of the trustees were members of the Investment Committee at the end of 2004.

AUDIT COMMITTEE

The Audit Committee's primary duties and responsibilities include:

- ◆ Reviewing the REIT's internal control procedures with the auditors and management,
- ◆ Reviewing the engagement and the independence of the REIT's auditors,

- ◆ Reviewing and recommending to the trustees for their approval the annual and quarterly financial statements; management's discussion and analysis of financial condition and results of operation; and the disclosure of other financial information, and
- ◆ Reviewing and discussing changes to and the application of accounting principles with management and the auditors.

All of the members of the Audit Committee are unrelated within the meaning of the TSX Guidelines.

COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The primary duties and responsibilities of the Compensation and Corporate Governance Committee include:

- ◆ Developing the corporate governance policy of the Board of Trustees, and
- ◆ Developing the REIT's human resources and compensation policies.

The members of the Committee are unrelated within the meaning of the TSX Guidelines.

“ We remain focused on strengthening InnVest through broader diversification in brand, location and market. We have achieved this through balanced, sustainable growth and conservative financial management that will ensure long-term stability of distributions to our unitholders. We are also committed to meeting changing regulatory guidelines for financial management of the Trust and disclosure to our unitholders.”



Tamara Lawson
*Chief Financial Officer
and Secretary*

INTRODUCTION

The following is a discussion of the results of operations and financial condition of InnVest Real Estate Investment Trust ("InnVest" or the "REIT") for the three months and year ended December 31, 2004, with a comparison to the results of operations of InnVest for the three months and year ended December 31, 2003.

The following management's discussion and analysis is dated March 21, 2005 and should be read in conjunction with the audited consolidated financial statements of the REIT and the notes thereto as at and for the years ended December 31, 2004 and 2003.

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

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

OVERVIEW OF INNVEST REIT

InnVest holds Canada's largest hotel portfolio with 124 hotels and over 13,000 rooms. It also owns a 50% interest in Choice Hotels Canada Inc. ("Choice Canada"), the largest franchisor of hotels in Canada. The hotel portfolio consists of limited service and mid-market hotel properties operated under several internationally recognized franchise brands such as Comfort Inn, Quality Suites, Quality Hotels, Holiday Inn and Travelodge. The REIT's portfolio is geographically diversified with the bulk of its properties located in Ontario and Quebec, where Canada's population and business activity are concentrated.

CANADIAN HOTEL MARKET

OVERVIEW

The Canadian hotel industry consists of more than 6,000 hotel properties with more than 360,000 guest rooms and generates annual revenue in excess of \$10 billion. Properties range from small independently owned and operated hotels and motels to large, full service branded hotels. Approximately 50% of Canadian hotel properties are branded. This figure increases to approximately 65% when considering only hotels with more than 100 rooms.

Hotels can be categorized by service level and market position.

- First, there are limited service and full service hotels. Limited service hotels generate a substantial portion of their revenue from guest room rentals, generally providing limited food, beverage or other services. They tend to target more price-sensitive customers. Full service hotels typically offer a wider range of services including restaurants, lounges, meeting facilities, business centers and fitness centers. Limited service hotels have lower fixed costs and a more stable customer base than full service properties, and therefore generate more stable cash flows through economic cycles. This lower volatility makes limited service hotels particularly well suited for ownership by a real estate investment trust. In contrast, revenues at full service hotels can decline more during industry downturns with more upside during robust markets, making earnings more volatile.
- Second, there are six categories of properties by market position, defined by price point. Market position ranges from the most basic budget hotels and motels; economy mid-scale without food and beverage* ("F&B"); mid-scale with F&B*; upscale; and, at the highest price-point, luxury hotels and resorts. The budget, economy and mid-scale without F&B categories combine to form the limited service category. Most of InnVest's hotels are in the mid-scale without F&B category, although our portfolio of mid-scale hotels with F&B expanded in 2004 with the acquisition of 10 hotels in that category.

PERFORMANCE DRIVERS

Demand for hotel rooms is driven by the location of the property, sales efforts at the property and national level, and by brand affiliation, if the property is branded.

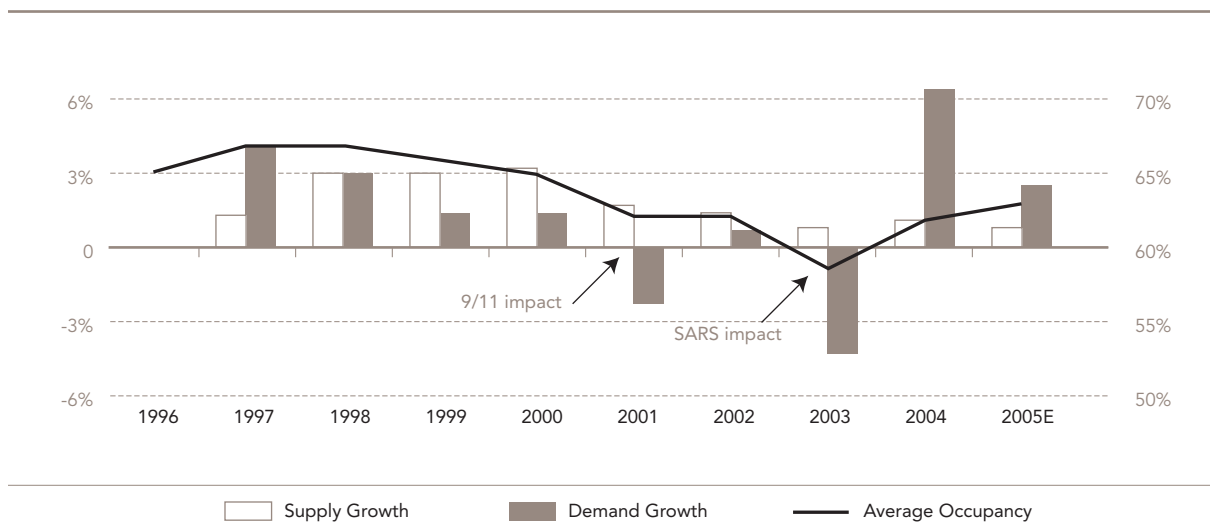
* Both also exist in extended stay format

Customers can be divided into two broad segments, business and leisure. Both of these groups can be further segmented into group and individual. In the business segment, group travel typically consists of convention and group meetings while for the leisure segment, group business generally refers to tour groups.

The two main industry drivers of long term performance are economic growth – which determines demand for lodging – and the supply of new rooms. However, one-time events can also have an impact on the short term performance of a property. Unlike other classes of real estate, which tend to be lagging economic indicators, demand in the hotel industry tends to be closely tied to current GDP growth. Both leisure and business travel tend to decline in an economic slowdown. Leisure spending is discretionary and therefore one of the first expenditures to be reduced in times of economic uncertainty or slower growth. Growth in business travel spending not only slows along with dampened economic prospects, but also business travelers tend to trade down to more affordable hotels.

While economic growth affects room demand, the growth in supply of new rooms is equally important in determining industry profitability. When growth in demand for rooms exceeds growth in supply, occupancy levels rise and properties are able to increase room rates. This has a significant impact on profitability. Conversely, when supply growth exceeds demand growth occupancy decreases, which often leads to reduced room rates and decreased profitability.

The chart below illustrates industry year-over-year changes in supply, demand and occupancy in the Canadian hotel industry since 1996:



Source: PKF Consulting

RECENT INDUSTRY PERFORMANCE

Industry fundamentals were much improved in 2004 over 2003, a year of many challenges for the lodging industry, particularly severe acute respiratory syndrome, or SARS. According to PKF Consulting, advisors to the hotel industry, 2004 revenues returned to 2002 pre-SARS levels. Demand in 2004 surpassed demand in 2002 by 2.3%, more than offsetting the 2.0% growth in supply over the past two years.

The majority of regional markets have posted gains over the previous year, led by the Greater Toronto Area (“GTA”) with RevPAR gains of 19.6% in 2004. In the GTA, demand surpassed 2002 levels but room rates lagged by 2.0%. Other markets showing solid RevPAR growth in 2004 include London (+8.2%), Calgary (+10.6%), Quebec City (+8.9%), and Edmonton (+4.9%). While some markets were particularly strong, others experienced challenges. In Windsor RevPAR declined 5.3% due to labour strikes and border crossing slow-downs. In Atlantic Canada, RevPAR was virtually unchanged from 2003. InnVest’s geographic diversification helps mitigate the effects of fluctuations in regional markets.

One key factor fuelling continued strength in the lodging industry is the limited growth in room supply. According to PKF Consulting, room supply grew at 1.2% in 2004 and is expected to grow at only 1.0% in 2005. PKF has forecast that demand will grow by another 2.5% in 2005, and it is expected that the resulting higher occupancies will create an opportunity to increase room rates.

PROFILE OF INNVEST

HOTEL OWNERSHIP

InnVest owns 124 internationally branded limited service and mid-scale with food and beverage hotels located in every province of Canada (the “hotel portfolio”). The hotel portfolio includes 100 hotels flagged with Choice brands (Comfort Inn®, Quality Inn®, Quality Hotel® and Quality Suites®), 13 Travelodge® hotels, 10 Holiday Inn® hotels and one Best Western® hotel. The chart below summarizes InnVest’s brand distribution at December 31, 2004. One Quality Hotel has been re-branded as an independent hotel since December 31, 2004 in anticipation of the future sale of the hotel.

Brand distribution by guest room

Brands	No. of Hotels	As at December 31, 2004	
		No. of Guest Rooms	% of Guest Rooms
Comfort Inn	84	6,747	50.8%
Travelodge	13	2,118	16.0%
Holiday Inn	10	1,758	13.2%
Quality Hotel	8	1,423	10.7%
Quality Suites/Inn	8	1,096	8.3%
Best Western	1	130	1.0%
	124	13,272	100.0%

A considerable amount of each brand’s business is generated through the franchise company’s central reservation system. For the year ended December 31, 2004, for the REIT’s Choice branded hotels, the central reservation system generated 20.4% of the business of Comfort Inns and 23.1% of the business of Quality Hotels and Suites/Inns.

Geographically, the REIT’s guest rooms are concentrated in Ontario and Quebec, which together represent over 72% of guest rooms as of December 31, 2004. The majority of Canada’s population and business activity is located in Ontario and Quebec, with the balance of properties in population centres in the Atlantic and Western provinces. A summary of the geographic distribution by brand as at December 31, 2004 is as follows:

Brand distribution by geographic region

	Ontario			Quebec			Atlantic			Western		
	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms
Comfort Inn	37	3,093	23.3%	22	1,754	13.3%	16	1,155	8.7%	9	745	5.6%
Travelodge	8	1,041	7.8%	–	–	–	–	–	–	5	1,077	8.1%
Holiday Inn	8	1,410	10.6%	–	–	–	1	196	1.5%	1	152	1.1%
Quality Hotel	4	839	6.3%	2	298	2.2%	1	160	1.2%	1	126	1.0%
Quality Suites/Inn	4	604	4.6%	4	492	3.7%	–	–	–	–	–	–
Best Western	1	130	1.0%	–	–	–	–	–	–	–	–	–
	62	7,117	53.6%	28	2,544	19.2%	18	1,511	11.4%	16	2,100	15.8%

Our hotels are typically located near major thoroughfares in urban and suburban areas as well as demand generators such as business centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business travelers, leisure travelers, groups, organizations and corporate clients.

Based on customer research, Choice Canada has developed a re-imaging program which will be rolled out in 2005 for the Comfort Inn brand. The program includes, but is not limited to, a fresh exterior sign and logo, upgraded bathroom amenities such as curved shower rods and pulsating shower heads, high speed internet access and free continental breakfast. The re-imaging program along with the enhanced customer loyalty programs with the inclusion of Aeroplan® instituted in 2004 will help our Comfort Inns maintain their competitive advantage and market share premium.

FRANCHISE BUSINESS

InnVest owns 50% of Choice Canada which has franchise agreements with approximately 280 locations open or under development in Canada and more than 24,000 guest rooms. The remaining 50% is owned by Choice Hotels International Inc. ("Choice International"), one of the largest hotel franchise companies in the world. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs, and proprietary property management systems.

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

COMPETITIVE STRENGTHS

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

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

DECLARATION OF TRUST

InnVest is governed by its Declaration of Trust, which is intended to mitigate risks through financial and operating management restrictions, limitations and policies such as:

- Eligible investments are restricted primarily to hotels in Canada;
- Investing in raw land for development and engaging in the development and construction of new real property is prohibited;
- Individual property mortgages, or mortgages on a pool of properties, cannot exceed 75% of the value of the underlying property;
- Debt is limited to 50% of gross asset value before convertible debentures. The REIT's leverage at December 31, 2004 was 37.2%;
- Debt is limited to 60% of gross asset value including convertible debentures. The REIT's leverage including convertible debentures at December 31, 2004 was 50.8%;
- Units cannot be issued from treasury unless the trustees consider it not to be dilutive to ensuing annual distributions of distributable income to existing unitholders;
- The REIT is required to pay distributions of not less than 80% of the annual distributable income equally on a monthly basis;
- Related party transactions require the approval of two-thirds of the independent trustees, and any transfers of real property between related parties requires an independent appraisal; and
- Any material change to the Master Hotel Management Agreement requires two-thirds approval of the independent trustees.

STRATEGY AND OBJECTIVES

OBJECTIVES OF INNVEST

InnVest's three primary objectives are:

1. To provide stable and growing cash distributions to unitholders;
2. To maximize the long-term value of our assets by investing in and actively managing the hotel assets; and
3. To pursue selective acquisitions that are expected to be accretive to earnings and cash flow.

OPERATING STRATEGY

InnVest achieves its objective of stable cash distributions by owning a diversified portfolio of leading hotel properties diversified by location, brand, customer type and, increasingly, by market position. If a property is a leader in its market, it will enjoy both an occupancy and rate advantage over its competitors. Since individual markets can be affected by local events and economic conditions, diversification helps limit the impact of such factors on the overall portfolio.

InnVest's operating strategy is to continue to enhance the performance of each hotel and improve its RevPAR penetration versus its competitive set. The manager of the hotel portfolio is Westmont, one of the largest privately held owner/operators of hotels in the world. InnVest, through its hotel manager, applies five main operating and strategic principles to maximize operating efficiencies and internal growth:

1. Maximize the performance of each individual hotel;
2. Use yield management and market strategies to maximize RevPAR;
3. Control operating costs by improving operating efficiencies and taking advantage of buying power and economies of scale;
4. Continually maintain and enhance the quality of the portfolio and guest satisfaction; and
5. Expand sales across all customer segments with a focus on building our base business through crew sales; corporate national, regional and local accounts; and groups while maintaining availability for the higher room rate generating tourist segment.

Westmont has approximately 7.5 years remaining on a 10-year master hotel management agreement to manage InnVest's hotel portfolio and is subject to non-competitive arrangements.

ACQUISITION STRATEGY AND 2004 ACTIVITY

InnVest will continue to pursue accretive acquisitions of hotels that complement its existing portfolio. Through its relationship with Westmont, InnVest has access to an international network of relationships with leading participants in the hospitality industry which provide a competitive advantage in terms of sourcing new acquisitions. Our focus will be to continue to leverage our strong relationships in Canada to acquire additional hotels, with a focus on the mid-scale segment. InnVest will remain flexible, however, and will seriously consider properties or portfolios in other segments if these assets meet our strict criteria, bring stable, accretive cash flow and provide attractive long-term prospects for the REIT.

InnVest's strategy is to continue to increase diversification by geography, product/brand, customer as well as by service level and market segment.

The year 2004 marked a 10-year low in hotel transaction volumes in Canada, not surprising given the challenges of 2003. Despite this difficult environment, InnVest was successful in adding 10 hotels to the portfolio.

In the second quarter of 2004, InnVest expanded its presence in the mid-scale with food and beverage sector in order to further diversify its hotel portfolio, capitalize on continued strengthening of the hotel market and grow the portfolio with properties providing stable cash flow with long-term growth potential. The REIT did this through two transactions. The first was the acquisition of the 196-room Holiday Inn Dartmouth, Nova Scotia, which closed on April 5, 2004. The second was the acquisition of a portfolio of nine hotels with 1,525 rooms: seven Holiday Inns in Ontario, one Holiday Inn in Calgary, Alberta and one Quality Hotel in Regina, Saskatchewan. This transaction closed in two stages. Eight hotels were acquired on April 7, 2004 and the ninth hotel was acquired on July 1, 2004.

This acquisition was funded through the April 2, 2004 issuance of trust units and convertible debentures and through long-term debt. Costs related to the issuance of the convertible debentures and long-term debt, such as commitment fees, underwriting costs, and legal costs totaling \$3.3 million, have been capitalized in deferred financing costs and are being amortized over the term of the debt. The 10 hotels acquired in the second and third quarters will be referred to as the acquired hotels.

Based on 2004 actual results, these acquisitions were immediately accretive to distributable income. Because an affiliate of Westmont previously managed the acquired hotels, they have been seamlessly integrated into InnVest and little change in the management structure has occurred.

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

In compliance with their obligations under the Declaration of Trust, the independent trustees retained various independent third party professionals whom they relied upon in their assessment. These professionals included an appraiser, financial advisor, structural engineer and environmental consultant. Upon completion of their assessment and review of the reports prepared by the independent third party professionals, the independent trustees recommended approval of the acquisition, a recommendation adopted unanimously by the REIT's trustees.

2004 FINANCIAL HIGHLIGHTS

- RevPAR growth during 2004 for the original portfolio of 114 hotels was 3.1%;
- RevPAR growth for the 10 acquired hotels was 4.6% during the periods owned compared to the same periods in 2003;
- Distributable income grew to \$44.3 million in 2004, an increase of \$4.8 million over the previous year. Distributable income per unit on a diluted basis grew to \$0.986 from \$0.959, an increase of 2.8%;
- In April 2004, the REIT acquired nine hotels with 1,528 rooms, one Holiday Inn in Dartmouth, Nova Scotia, six Holiday Inns in Ontario, one Holiday Inn in Calgary, Alberta and one Quality Hotel in Regina, Saskatchewan. In July 2004, the REIT acquired the Holiday Inn in Oshawa, Ontario with 193 rooms.
- \$13.6 million was invested in our properties and was funded from our restricted cash reserves. Cash reserves for future capital expenditures are \$17.0 million.

FINANCIAL PERFORMANCE REVIEW

In reviewing the performance of InnVest, a comparison of the results of operations for the three months and year ended December 31, 2004 is being made to the results of operations for the comparable period in 2003. Operating results on a quarterly basis are unaudited.

	Three months ended December 31		Year ended December 31	
	2004	2003	2004	2003
Hotel revenues	\$ 67,291	\$ 50,287	\$ 279,297	\$ 224,216
Hotel expenses	49,658	34,997	186,452	144,006
Hotel operating income	17,633	15,290	92,845	80,210
Net income (loss)	\$ 1,531	\$ (13,414)	\$ 31,236	\$ 10,858
Net income (loss) per unit				
– basic	\$ (0.031)	\$ (0.374)	\$ 0.457	\$ 0.071
– diluted	\$ (0.031)	\$ (0.374)	\$ 0.456	\$ 0.071
Net income (loss)	\$ 1,531	\$ (13,414)	\$ 31,236	\$ 10,858
Add / (deduct)				
Depreciation and amortization (1)	9,024	7,798	35,084	30,802
Future income tax (recovery) expense	(474)	16,334	(2,576)	13,708
Non-cash executive and trustee compensation	242	89	494	290
Funds from operations (2)	\$ 10,323	\$ 10,807	\$ 64,238	\$ 55,658
Deferred land lease expense and retail lease income, net	104	–	104	–
Amortization of fair value debt adjustment	–	(342)	(809)	(1,384)
Amortization of deferred financing and other assets	509	366	1,854	1,463
Reserve for replacement of furniture, fixtures and equipment and capital improvements (“FF&E Reserve”)	(2,690)	(2,012)	(11,170)	(8,969)
Convertible debentures interest	(2,680)	(1,829)	(9,948)	(7,313)
Distributable income (2)	\$ 5,566	\$ 6,990	\$ 44,269	\$ 39,455
Distributable income per unit (3)				
– basic	\$ 0.122	\$ 0.170	\$ 0.994	\$ 0.959
– diluted	\$ 0.121	\$ 0.170	\$ 0.986	\$ 0.959
Distributions (4)	\$ 12,878	\$ 11,594	\$ 50,164	\$ 46,280
Distributions - per unit (4)	\$ 0.2813	\$ 0.2813	\$ 1.1250	\$ 1.1250

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

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

(3) Distributable income per unit amounts have been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

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

KEY PERFORMANCE MEASURES

The key measures that indicate the performance of the hotel industry and the relative strength of participants in the industry are occupancy, average daily rates (“ADR”), revenue per available room (“RevPAR”), gross operating profit (“GOP”), hotel operating income (“HOI”) and funds from operations (“FFO”) or distributable income (“DI”).

Original portfolio

The key performance measures for the REIT's original hotel portfolio, which excludes the acquired hotels, by geographic region in Canada for the three months and year ended December 31, 2004 and the comparable periods are as follows:

	Three months ended December 31			Year ended December 31		
	2004	2003	Var %	2004	2003	Var %
Occupancy						
Ontario	56.2%	56.3%	(0.2)%	61.5%	58.9%	4.4 %
Quebec	58.7%	58.1%	1.0 %	64.5%	65.3%	(1.2)%
Atlantic	59.5%	57.8%	2.9 %	65.4%	66.0%	(0.9)%
Western	46.3%	46.4%	(0.2)%	54.2%	53.3%	1.7 %
Total	55.6%	55.4%	0.4 %	61.5%	60.3%	2.0 %
ADR						
Ontario	\$ 84.59	\$ 82.70	2.3 %	\$ 85.48	\$ 84.73	0.9 %
Quebec	\$ 81.62	\$ 80.45	1.5 %	\$ 85.97	\$ 85.13	1.0 %
Atlantic	\$ 74.80	\$ 72.97	2.5 %	\$ 81.72	\$ 80.27	1.8 %
Western	\$ 65.61	\$ 65.58	0.1 %	\$ 67.76	\$ 66.98	1.2 %
Total	\$ 80.21	\$ 78.70	1.9 %	\$ 82.67	\$ 81.77	1.1 %
RevPAR						
Ontario	\$ 47.57	\$ 46.56	2.2 %	\$ 52.55	\$ 49.91	5.3 %
Quebec	\$ 47.90	\$ 46.74	2.5 %	\$ 55.45	\$ 55.59	(0.3)%
Atlantic	\$ 44.50	\$ 42.18	5.5 %	\$ 53.48	\$ 52.98	1.0 %
Western	\$ 30.39	\$ 30.43	(0.1)%	\$ 36.75	\$ 35.70	2.9 %
Total	\$ 44.58	\$ 43.57	2.3 %	\$ 50.80	\$ 49.28	3.1 %

The original portfolio's room revenue for the three months ended December 31, 2004 was \$47.4 million, \$1.1 million or 2.3% higher than the \$46.3 million generated in the same period in 2003. This increase was due to a slight increase in occupancy of 0.4%, and an increase in ADR of \$1.51 or 1.9% for a RevPAR increase of 2.3%.

Geographically, all regions experienced higher room revenue relative to the prior year, with the exception of the Western region. The overall improvement in room revenue can be primarily attributed to an improvement in our Ontario region hotels, followed by our Quebec and Atlantic region hotels. The main market which contributed positively to our annual improvement was our Greater Toronto Area ("GTA") hotels (10 hotels, 1,755 rooms) which experienced a 15% improvement over the prior year.

Acquired hotels

The REIT acquired nine hotels in the second quarter of 2004, assuming ownership of one hotel on April 5, 2004 and assuming ownership of the remaining eight hotels on April 7, 2004. The REIT acquired a tenth hotel on July 1, 2004, and as a result, the acquired hotels experienced their first full quarter under InnVest REIT's ownership in the third quarter of 2004. The key performance indicators for the REIT's recently acquired nine Holiday Inns and one Quality Hotel, of which seven hotels are in Ontario, two hotels in Western Canada, and one hotel in Atlantic Canada, for the three months ended December 31, 2004 and the period ended December 31, 2004 (which does not reflect a full year) are as follows:

	Three months ended December 31			Period ended December 31		
	2004	2003 (1)	Var %	2004 (2)	2003 (1)	Var %
Occupancy	60.8%	60.0%	1.3 %	67.3%	64.3%	4.7 %
ADR	\$ 108.03	\$ 109.15	(1.0)%	\$ 111.62	\$ 111.74	(0.1)%
RevPAR	\$ 65.71	\$ 65.45	0.4 %	\$ 75.08	\$ 71.81	4.6 %

(1) The comparable period for the hotels is shown, although the hotels were not owned by the REIT in 2003.

(2) One hotel was acquired on April 5, 2004, eight hotels were acquired on April 7, 2004 and the tenth hotel was acquired on July 1, 2004.

The acquired hotels experienced growth in occupancy levels relative to the prior year of 1.3% for the three months ended December 31, 2004, and a decrease in ADR of 1.0%, which resulted in a net RevPAR improvement of 0.4%. For the period from the various acquisition dates to December 31, 2004, growth in occupancy of 4.7% was the main driver behind the RevPAR improvement of 4.6%.

OPERATING RESULTS REVIEW – YEAR ENDED DECEMBER 31, 2004

REGIONAL OPERATING RESULTS COMPARISON

The following chart shows the regional operating results for the original portfolio of hotels by region along with the acquired properties for the years ended December 31, 2004 and 2003:

	Ontario		Quebec		Atlantic		Western		Acquired hotels (1)		Total (2)	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Occupancy	61.5%	58.9%	64.5%	65.3%	65.4%	66.0%	54.2%	53.3%	67.3%	64.3%	62.0%	60.7%
ADR	\$ 85.48	\$ 84.73	\$ 85.97	\$ 85.13	\$ 81.72	\$ 80.27	\$ 67.76	\$ 66.98	\$ 111.62	\$ 111.74	\$ 85.67	\$ 84.81
RevPAR	\$ 52.55	\$ 49.91	\$ 55.45	\$ 55.59	\$ 53.48	\$ 52.98	\$ 36.75	\$ 35.70	\$ 75.08	\$ 71.81	\$ 53.12	\$ 51.44
Room revenues	\$ 112,896	\$ 107,001	\$ 51,633	\$ 51,647	\$ 25,740	\$ 25,413	\$ 24,506	\$ 23,723	\$ 33,556	\$ 32,094	\$ 248,331	\$ 239,878
Total hotel revenues	\$ 123,429	\$ 116,479	\$ 54,748	\$ 55,564	\$ 26,620	\$ 26,364	\$ 26,445	\$ 25,809	\$ 48,055	\$ 46,662	\$ 279,297	\$ 270,878
Hotel operating expenses and management fees	\$ 66,848	\$ 62,218	\$ 29,793	\$ 29,771	\$ 13,161	\$ 12,614	\$ 16,126	\$ 15,841	\$ 33,032	\$ 32,270	\$ 158,960	\$ 152,714
Gross operating profit	\$ 56,581	\$ 54,261	\$ 24,955	\$ 25,793	\$ 13,459	\$ 13,750	\$ 10,319	\$ 9,968	\$ 15,023	\$ 14,392	\$ 120,337	\$ 118,164
GOP margin	45.8%	46.6%	45.6%	46.4%	50.6%	52.2%	39.0%	38.6%	31.3%	30.8%	43.1%	43.6%
Property taxes, rent and insurance	\$ 14,403	\$ 14,219	\$ 5,230	\$ 4,996	\$ 2,056	\$ 1,961	\$ 2,529	\$ 2,386	\$ 3,274	\$ 3,993	\$ 27,492	\$ 27,555
Hotel operating income	\$ 42,178	\$ 40,042	\$ 19,725	\$ 20,797	\$ 11,403	\$ 11,789	\$ 7,790	\$ 7,582	\$ 11,749	\$ 10,399	\$ 92,845	\$ 90,609
HOI margin	34.2%	34.4%	36.0%	37.4%	42.8%	44.7%	29.5%	29.4%	24.4%	22.3%	33.2%	33.5%

(1) The results of the acquired hotels are shown only for the period owned, which was not for the full year ended December 31, 2004. Also, the comparable period 2003 results reflect the same time period included in the 2004 results. The REIT did not own the acquired hotels for any portion of the year ended December 31, 2003.

(2) Total amounts include the results of the acquired hotels in the comparative period as reflected in note (1), therefore the total amounts shown for 2003 will differ from previously reported results.

In the prior year, the HOI margin for the original hotel portfolio was 35.8% or 0.7 points higher than the 35.1% generated in the year ended December 31, 2004. This margin compression was the cumulative result of increased expenses related to the operation of a new property management computer system at the Choice branded hotels, enhanced customer loyalty programs and extended free continental breakfast programs at numerous hotels. The overall HOI margin is somewhat lower, due to the nature of the acquired hotels relative to the original portfolio, which is explained further in the departmental operating profit analysis below. With the inclusion of the acquired hotels in the comparable period, the HOI margin decreased slightly from 33.5% to 33.2%.

HOTEL REVENUES

Hotel revenues consist primarily of revenue generated from room occupancy. Non-room revenue from food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, parking and telephone are also included. Departmental expenses are those expenses which are directly related to generating both room revenue and non-room revenue.

ROOM REVENUES

A geographical comparison of the room revenues variance between the years ended December 31, 2004 and 2003 is as follows:

	Hotels	Rooms	As a % of total	Room revenue variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.2%	\$ 4,583	11.3%	15.0%
Ontario other	45	4,115	31.0%	1,312	3.2%	1.7%
<hr/>						
Total Ontario	55	5,870	44.2%	5,895	14.5%	5.5%
Quebec	28	2,544	19.2%	(14)	–	–
Atlantic	17	1,315	9.9%	327	0.8%	1.3%
Western	14	1,822	13.7%	783	1.9%	3.3%
<hr/>						
Sub-total	114	11,551	87.0%	6,991	17.2%	3.7%
Acquired Hotels (1)	10	1,721	13.0%	33,556	82.8%	100.0%
<hr/>						
Total (1)	124	13,272	100.0%	\$ 40,547	100.0%	19.5%

(1) The results of the acquired hotels do not reflect a full year as they were acquired during the second and third quarters of 2004.

ACQUIRED HOTELS

The REIT's acquired hotels contributed \$33.6 million or 82.8% of the increase in room revenues.

ONTARIO

InnVest's original portfolio of Ontario hotels, which accounts for 44.2% of the InnVest portfolio, contributed 14.5% of the overall increase in room revenues for the year ended December 31, 2004. The GTA alone contributed the majority of the overall increase as room revenues increased by 15.0%. This reflects primarily a recovery in revenues in the second and third quarters in the GTA, a region which had experienced a significant decline in demand in 2003. In the remainder of Ontario, the strongest increases in room revenues were experienced in the Oshawa hotels due to increased business activity in this market. The Oshawa hotels posted gains of \$635 or 7.1% versus 2003. The increases enjoyed by the majority of the remaining hotels in Ontario were partially offset by a decline in the Windsor hotels of \$693 or 10.9% due mainly to a decline in travel to Canada by U.S. tourists.

QUEBEC

InnVest's portfolio of hotels in Quebec generated room revenues consistent with 2003. Strong increases were experienced in all markets except Montreal. Quebec City posted gains over 2003 of \$442 or 5.4%, while the remaining hotels other than Montreal posted gains of \$656 or 4.3%. These combined gains were offset by a \$1.1 million or 3.9% decline in the hotels located in Montreal caused by a decline in demand for lodging in the city from business travelers and U.S. tourists.

ATLANTIC

InnVest's original portfolio of Atlantic region hotels experienced 1.3% growth over 2003, reflecting market stability in this area during the year.

WESTERN

InnVest's original portfolio of Western hotels experienced an increase of \$783 or 3.3% over the prior year. This increase was attributable to improvements in our hotels in Calgary (\$285 or 4.9%), Winnipeg (\$158 or 5.8%), Swift Current (\$230 or 30.7%), Chilliwack (\$154 or 13.1%) and modest gains in other markets. These improvements were partially offset by a decline of room revenue of \$240 or 7.2% in our Regina hotels. The Swift Current Comfort Inn has benefited from crew business that will extend throughout 2005.

OVERALL HOTEL PORTFOLIO

The improvement of \$40.5 million in room revenues in the year primarily reflects the \$33.6 million increase in revenues from the acquired hotels. The majority of the remaining \$7.0 million increase in room revenues was achieved through a \$5.9 million improvement in the portfolio of original hotels in Ontario, of which \$4.6 million was achieved by the GTA hotels. This improvement in Ontario combined with the improvement in the Western (\$783) and Atlantic hotels (\$327) along with a slight decline in the Quebec hotels resulted in the REIT's overall improvement.

NON-ROOM REVENUES

Non-room revenues for the year ended December 31, 2004 account for 11.1% (2003 or 7.3%) of total hotel revenues. The mix of room revenues and non-room revenues has changed because the acquired hotels compete in the mid-scale with food and beverage sector and earn a higher proportion of total revenues from non-room revenues. On an annualized basis non-room revenues would have accounted for 11.0% of total hotel revenues if the acquired hotels had been owned for all of 2004.

Non-room revenues increased by \$14.5 million, reflecting primarily the non-room revenues generated by the REIT's acquired hotels.

DEPARTMENTAL OPERATING PROFIT ANALYSIS

The following chart illustrates the REIT's room and non-room operating profit for the years ended December 31, 2004 and 2003:

	Room operations		Non-room operations		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Original Portfolio	\$ 214,775	\$207,784	\$ 16,467	\$ 16,432	\$ 231,242	\$224,216
Acquired Hotels (1)	33,556	–	14,499	–	48,055	–
Total	248,331	207,784	30,966	16,432	279,297	224,216
Direct expenses						
Original Portfolio	51,605	48,645	11,573	11,968	63,178	60,613
Acquired Hotels (1)	8,141	–	10,676	–	18,817	–
Total	59,746	48,645	22,249	11,968	81,995	60,613
Departmental operating profit						
Original Portfolio	163,170	159,139	4,894	4,464	168,064	163,603
Acquired Hotels (1)	25,415	–	3,823	–	29,238	–
Total	\$ 188,585	\$ 159,139	\$ 8,717	\$ 4,464	197,302	163,603
Total undistributed expenses					(76,965)	(59,831)
Gross operating profit					\$ 120,337	\$103,772
Gross operating profit margin					43.1%	46.3%
Departmental operating profit margin						
Original Portfolio	76.0%	76.6%	29.7%	27.2%	72.7%	73.0%
Acquired Hotels (1)	75.7%	–	26.4%	–	60.8%	–
Total	75.9%	76.6%	28.2%	27.2%	70.6%	73.0%

(1) The acquired hotels were acquired by the REIT during 2004 and are not included in the results of the REIT in 2003.

Rooms operating profit margin on the original portfolio declined slightly by 0.6 points. This is primarily attributable to increases in expenses related to the operation of a new computer property management system, marketing costs associated with an enhanced customer loyalty program and free continental breakfast programs added to a number of hotels. The rooms operating profit margin of the acquired hotels was consistent with the original portfolio's margin of 76.0%. For the REIT's portfolio, the rooms operating profit margin declined by 0.7 points during the year, but the absolute gross operating profit was significantly higher.

Non-room operating profit margin improved by 1.0 points from the prior year. This is a result of a 2.5 point improvement in the original portfolio, partially offset by a lower operating profit margin generated by the acquired hotels relative to the original portfolio. The 2.5 point improvement in the original portfolio is primarily due to improved food and beverage operations, which experienced a 4.9% operating profit margin in 2004, compared to a 3.1% operating profit margin in 2003. The lower operating profit margin in the acquired hotels is due to their mid-scale nature relative to the limited service nature of the original portfolio, as explained above.

Overall gross operating profit margin decreased 3.2 points. This is primarily due to the increased percentage of overall revenues being generated from non-room operations by the acquired hotels relative to the original portfolio of hotels.

HOTEL EXPENSES

Hotel expenses for 2004 increased by \$42.4 million or 29.5% compared to 2003. This primarily reflects \$36.3 million in expenses incurred in the acquired hotels. The remaining \$6.1 million that relates to the original portfolio represents a 4.3% increase over 2003. In the original portfolio, room expenses increased \$3.0 million as a result of a 2.0% increase in occupancy which led to higher payroll costs. Increased room expense also resulted from the installation of a new computer system at all Choice branded hotels. Property taxes increased \$356 or 1.7%. Marketing expense increased \$1.5 million or 12.7% mainly as a result of enhanced guest loyalty programs. Administrative and general expense increased \$898, generally as the result of the increase in occupancy.

HOTEL OPERATING INCOME

Hotel operating income ("HOI") for 2004 improved by \$12.6 million to \$92.8 million from \$80.2 million in 2003. This was a result of higher hotel revenues of \$55.0 million along with an overall increase in hotel expenses of \$42.4 million. Both are mainly attributable to the acquired hotels.

A geographical comparison of the hotel operating income variance between the years ended December 31, 2004 and 2003 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.2%	\$ 2,603	20.6%	31.1%
Ontario other	45	4,115	31.0%	(467)	(3.7%)	(1.5%)
Total Ontario	55	5,870	44.2%	2,136	16.9%	5.3%
Quebec	28	2,544	19.2%	(1,072)	(8.5%)	(5.2%)
Atlantic	17	1,315	9.9%	(386)	(3.0%)	(3.3%)
Western	14	1,822	13.7%	208	1.6%	2.7%
Sub-total	114	11,551	87.0%	886	7.0%	1.1%
Acquired Hotels (1)	10	1,721	13.0%	11,749	93.0%	100.0%
Total (1)	124	13,272	100.0%	\$ 12,635	100.0%	15.8%

(1) The results of the acquired hotels do not reflect a full period as they were acquired during the second and third quarters of 2004.

Strong gains in HOI in our GTA properties in the second and third quarters along with modest gains in our Western hotels due to improving room revenues contributed to the portfolio's increase for the year ended December 31, 2004. These results were offset by declines in our hotels in Atlantic Canada, Quebec, and the original portfolio of hotels in Ontario outside the GTA. Our Windsor and Ottawa hotels experienced a combined decline of \$1.1 million for the year ended December 31, 2004, which was a slight improvement over the results for the nine months ended

September 30, 2004. The results in these two markets were partially offset by improvements in the remainder of our other Ontario properties. The decline in our Quebec hotels primarily reflects a \$1.3 million decrease in HOI in our Montreal hotels and a \$222 increase in our Quebec City hotels.

OTHER INCOME AND EXPENSES

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

The net amount of other income and expenses for 2004 was \$63.7 million, which was \$7.1 million or 12.7% more than the same period in 2003. The main contributors to this change were a \$4.7 million increase in depreciation and amortization and a \$2.0 million increase in interest on mortgages, both mainly attributable to the acquired hotels. Also, there was a \$578 increase in corporate and administrative expense due to higher trustee compensation and additional staffing costs.

INCOME TAXES

Current income tax expense for 2004 was \$533, an increase of \$1.4 million over 2003 as a result of a decrease in the income tax loss benefit recognized in 2004 to \$525 from \$2.0 million in 2003. Further, InnVest experienced a \$16.3 million future income tax expense decrease for the period as the result of the reversal of previously planned corporate income tax rate reductions in the province of Ontario in the fourth quarter of 2003. Future income tax expense is recorded as a result of temporary differences between the measurement of income for tax and accounting purposes for the REIT's corporate subsidiaries. The largest temporary difference is the result of differences between depreciation for accounting purposes and the lesser amount claimed as capital cost allowance for income tax purposes. Temporary differences are recorded at the substantively enacted corporate tax rates at which these differences are expected to reverse.

In 2003, the REIT reported that 52.5% of the distributions made during that year were not taxable to unitholders. The REIT estimates that the non-taxable portion of the distributions to unitholders for 2004 will be 46%.

NET INCOME

InnVest's net income for 2004 was \$31.2 million or \$0.457 per unit – basic (diluted – \$0.456), compared with net income for 2003 of \$10.9 million or \$0.071 per unit – basic (diluted – \$0.071). The increase of \$20.3 million is the result of an increase in HOI of \$12.6 million partially offset by an increase in other expenses of \$7.1 million, and the net decrease in the future income tax expense and the reduction in income tax loss benefits recognized.

FUNDS FROM OPERATIONS

Funds from operations ("FFO") is not a measure defined under GAAP, but is widely used by the real estate industry. The Canadian Institute of Public and Private Real Estate Companies ("CIPPREC") generally defines FFO as net income adjusted for extraordinary items, gains or losses on the sale of assets, or provisions for impairment against property values, capital items and depreciation and amortization relating to capital items. FFO should not be considered as a substitute for net income or funds from operating activities determined in accordance with GAAP as an indicator of performance. The REIT's method of calculating FFO may be different from that reported by other organizations. The REIT currently calculates FFO by using net income and adjusting it by adding:

- i) Depreciation and amortization expense (excluding amortization of deferred financing and other assets expense);
- ii) Or deducting, future income tax expense (recovery);
- iii) Non-cash executive and trustee compensation expense.

FFO is a meaningful measure of operating performance for investors. It assumes that the value of real estate investments does not necessarily decrease on a systematic basis over time, which is an assumption inherent in GAAP, and it adjusts for items included in GAAP net income that do not necessarily provide the best indicator of operating performance (such as gains or losses on the sale of, and provisions for impairment against, hotel properties).

FFO for 2004 was \$64.2 million, \$8.6 million higher than the \$55.6 million achieved in 2003. After eliminating the tax loss benefits recognized in each period the adjusted FFO for 2004 was \$63.7 million, \$10.0 million higher than 2003. These increases in FFO are primarily a result of the increase in net income discussed previously.

DISTRIBUTABLE INCOME

Distributable income is not a measure defined under GAAP, however it is commonly used in the real estate investment trust industry to measure performance.

Distributable income is intended to approximate cash earnings and is defined in the REIT's Declaration of Trust to mean, net income of the REIT and its consolidated subsidiaries as reported in its consolidated financial statements in accordance with GAAP adjusted by:

- i) Adding depreciation and amortization, amortization of fair value debt adjustments and future income tax expenses;
- ii) Excluding any gains or losses on the disposition of any real property and any future income tax benefits;
- iii) Deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements ("FF&E reserves") and the interest on convertible debentures that is not included in the computation of net income; and
- iv) Any other adjustment determined by a majority of the Trustees of the REIT in their discretion.

The calculation of distributable income and the amounts of each adjustment from net income are disclosed in Note 16 to the financial statements. Distributable income is one measure used by industry analysts in the determination of the Trust's per unit value, the ability of the Trust to fund distributions and investment returns for current or potential investors. As outlined in the Declaration of Trust, the REIT is required to distribute monthly to unitholders not less than one-twelfth of 80% of the distributable income of the Trust on an annualized basis based on estimated distributable income of the Trust for the calendar year. Distributable income is not only used by management and the Board of Trustees to determine the level of distributions to unitholders, it also serves as an important measure for investors in their evaluation of the performance of management.

In addition, when evaluating acquisition opportunities, the current level of distributable income and the expected distributable income to be generated through an acquisition are reviewed by management in determining whether a proposed acquisition will cause an increase in distributable income per unit. Therefore, distributable income is an important measure for management as the guideline by which operating and financial decisions are made and as an integral part of the investment decision for investors and potential investors.

Distributable income for 2004 was \$44.3 million or \$0.994 per unit – basic (diluted – \$0.986). This reflects a \$4.8 million increase over distributable income achieved in 2003 of \$39.5 million or \$0.959 per unit – basic (diluted – \$0.959). This improvement would be greater by \$1.5 million if the income tax loss benefits recognized in each year were eliminated. The improvement is primarily due to the increases in hotel operating income net of increases in interest expense on mortgages and convertible debentures and an increase in the reserve for replacement of FF&E.

CHANGES IN FINANCIAL CONDITION

The following discussion evaluates the cash flow results of InnVest from operational, investing and financing activities for the year ended December 31, 2004.

OPERATING ACTIVITIES

Funds generated from operating activities increased \$19.8 million to \$67.9 million in 2004 from \$48.1 million in 2003. The increase is mainly attributable to higher net income before depreciation and amortization and future income tax expense of \$8.8 million, and an increase in non-cash working capital of \$10.2 million as summarized below:

	Year ended December 31		
	2004	2003	Variance
Accounts receivable	\$ (431)	\$ (328)	\$ (103)
Prepaid expense and other assets	(1,490)	118	(1,608)
Accounts payable and accrued liabilities	4,591	(7,330)	11,921
	\$ 2,670	\$ (7,540)	\$ 10,210

The \$103 decrease in non-cash working capital arising from accounts receivable is primarily due to the normal accounts receivable of the acquired hotels. The \$1.6 million decrease in non-cash working capital from prepaid expense and other assets is due to a prepayment of property insurance, along with an increase in the prepayment of property taxes related to the acquired hotels for future periods. The \$11.9 million improvement in non-cash working capital arising from accounts payable and accrued liabilities is due to the increase in accounts payable related to the acquired hotels of \$6.0 million, plus the higher amount of acquisition related liabilities paid in 2003 related to the formation of the REIT.

FINANCING ACTIVITIES

Funds from financing activities generated \$90.2 million in 2004 compared to a \$61.9 million deficit in 2003. The majority of this change relates to:

- the issuance of trust units of \$45.3 million net of issuance costs,
- the issuance of convertible debentures of \$57.5 million before issuance costs,
- new mortgage proceeds of \$61.4 million,
- an increase in cash distributions of \$1.7 million and convertible debentures interest of \$2.6 million, and
- a temporary \$6.6 million repayment of mortgages payable that was refinanced early in 2005 in anticipation of the closing of a contracted acquisition.

Cash distributions increased \$1.7 million. This change relates to:

- \$3.5 million in distributions on the trust units issued in April 2004, and
- a \$1.8 million increase in distributions made under the distribution reinvestment plan, which was not in effect until the middle of the second quarter of 2003.

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

Funds from financing activities	
Trust units, net of commissions and costs	\$ 45,281
Convertible debentures net of commissions and costs	54,944
Long-term debt mortgage financing	61,375
Capital lease obligation assumed	2,052
	163,652
Less purchase price, related costs and addition to restricted cash	131,348
Excess cash	\$ 32,304

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

Convertible debentures

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

Mortgage financing

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

INVESTING ACTIVITIES

Investing activities used cash of \$139.5 million in 2004 compared to \$9.0 million in 2003. This increase was mainly the result of \$121.7 million in hotel acquisitions, which closed in April and July 2004, and a \$6.0 million increase in capital expenditures in the period, along with a \$2.3 million increase in the change of cash restricted for future furniture, fixtures and equipment and capital expenditures.

As part of the regular refurbishment program, InnVest sets aside 4% of revenue for the replacement of furniture, fixture and equipment and capital improvements ("FF&E reserve") shown as restricted cash in the financial statements. The FF&E reserve is managed over the longer term to maintain the hotel properties to ensure they remain competitive in their markets.

In 2004 and 2003, InnVest spent \$13.6 million and \$7.7 million respectively on capital items. The REIT intends to complete a significant amount of its property refurbishments when demand for lodging is weaker. This allows management to displace a minimal amount of business from rooms out of service for refurbishment.

OPERATING RESULTS REVIEW – THREE MONTHS ENDED DECEMBER 31, 2004

REGIONAL OPERATING RESULTS COMPARISON

The following chart shows the regional operating results for the original portfolio of hotels by region along with the acquired properties for the three months ended December 31, 2004 and 2003:

	Ontario		Quebec		Atlantic		Western		Acquired hotels (1)		Total (2)	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Occupancy	56.2%	56.3%	58.7%	58.1%	59.5%	57.8%	46.3%	46.4%	60.8%	60.0%	56.3%	56.0%
ADR	\$ 84.59	\$ 82.70	\$ 81.62	\$ 80.45	\$ 74.80	\$ 72.97	\$ 65.61	\$ 65.58	\$ 108.03	\$ 109.15	\$ 84.11	\$ 82.93
RevPAR	\$ 47.57	\$ 46.56	\$ 47.90	\$ 46.74	\$ 44.50	\$ 42.18	\$ 30.39	\$ 30.43	\$ 65.71	\$ 65.45	\$ 47.32	\$ 46.41
Room revenues	\$ 25,689	\$ 25,158	\$ 11,211	\$ 10,943	\$ 5,384	\$ 5,102	\$ 5,095	\$ 5,097	\$ 10,404	\$ 10,363	\$ 57,783	\$ 56,663
Total hotel revenues	\$ 28,454	\$ 27,547	\$ 11,835	\$ 11,871	\$ 5,588	\$ 5,322	\$ 5,516	\$ 5,547	\$ 15,898	\$ 16,061	\$ 67,291	\$ 66,348
Hotel operating expenses and management fees	\$ 16,549	\$ 15,375	\$ 7,156	\$ 7,132	\$ 3,212	\$ 3,003	\$ 3,716	\$ 3,664	\$ 11,844	\$ 11,950	\$ 42,477	\$ 41,124
Gross operating profit	\$ 11,905	\$ 12,172	\$ 4,679	\$ 4,739	\$ 2,376	\$ 2,319	\$ 1,800	\$ 1,883	\$ 4,054	\$ 4,111	\$ 24,814	\$ 25,224
GOP margin	41.8%	44.2%	39.5%	39.9%	42.5%	43.6%	32.6%	33.9%	25.5%	25.6%	36.9%	38.0%
Property taxes, rent and insurance	\$ 3,555	\$ 3,498	\$ 1,385	\$ 1,287	\$ 516	\$ 498	\$ 618	\$ 540	\$ 1,107	\$ 1,371	\$ 7,181	\$ 7,194
Hotel operating income	\$ 8,350	\$ 8,674	\$ 3,294	\$ 3,452	\$ 1,860	\$ 1,821	\$ 1,182	\$ 1,343	\$ 2,947	\$ 2,740	\$ 17,633	\$ 18,030
HOI margin	29.3%	31.5%	27.8%	29.1%	33.3%	34.2%	21.4%	24.2%	18.5%	17.1%	26.2%	27.2%

(1) The REIT did not own the acquired hotels for the three months ended December 31, 2003.

(2) Total amounts include the results of the acquired hotels in the comparative period as reflected in note (1), therefore the total amounts shown for 2003 will differ from previously reported results.

In the prior year, HOI margin for the REIT's original hotel portfolio was 30.4% which is 1.8 points higher than the 28.6% generated in the fourth quarter of 2004. The original portfolio, which is comprised primarily of limited service hotels experienced this margin compression from cost increases related to a new front computer system, participation in enhanced customer loyalty programs and extended complimentary breakfasts in various hotels. Mid-scale hotels typically generate more non-room revenue than limited service hotels, and as a result, generally have lower operating margins. With the inclusion of the acquired hotels in the comparable periods, the HOI margin decreased slightly by 1.1 points going from 27.2% in the fourth quarter of 2003 to 26.2% in fourth quarter of 2004.

ROOM REVENUES

A geographical comparison of the room revenue variance between the three months ended December 31, 2004 and the three months ended December 31, 2003 is as follows:

	Hotels	Rooms	As a % of total	Room revenue variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.2%	\$ 20	0.1%	0.3%
Ontario other	45	4,115	31.0%	511	4.5%	3.0%
Total Ontario	55	5,870	44.2%	531	4.6%	2.1%
Quebec						
Atlantic	28	2,544	19.2%	268	2.3%	2.4%
Western	17	1,315	9.9%	282	2.5%	5.5%
	14	1,822	13.7%	(2)	–	–
Sub-total	114	11,551	87.0%	1,079	9.4%	2.3%
Acquired Hotels	10	1,721	13.0%	10,404	90.6%	100.0%
Total	124	13,272	100.0%	\$ 11,483	100.0%	24.8%

ACQUIRED HOTELS

The REIT's acquired hotels contributed \$10.4 million or 90.6% of the increase in room revenue in the quarter.

ONTARIO

For the three months ended December 31, 2004, InnVest's original portfolio of Ontario hotels, which accounts for 44.2% of the InnVest portfolio, contributed 47.4% of the increase in room revenue of the original portfolio. The general increase in room revenue in most regions outside the GTA was partially offset by a decline in Windsor and London as described below. The REIT's Ottawa hotels improved significantly in the quarter, posting a \$410 or 15.3% increase as the result of increased corporate and government business, while the Sudbury hotels gained \$187 or 11.9% over the prior year, benefiting from increased activity in the mining sector. The Oshawa hotels continued a trend of strong improvement, showing growth in room revenue of \$102 or 4.7% as a result of increased business activity in this region. Partially offsetting these improvements were continued declines in the Windsor hotels of \$150 or 10.8% due to soft demand from U.S. tourists and in the London hotels of \$144 or 11.6% due to new supply and general reductions in market demand.

QUEBEC

The increase of \$268 or 2.4% in Quebec was attributable to increases of \$148 or 9.5% in Quebec City and \$268 or 8.9% in rural Quebec while the Montreal hotels posted a decline of \$161 or 2.7% over the prior year. The Quebec hotels are experiencing improvement due to a gradual return of U.S. tourist traffic into the region, while the Montreal hotels results were negatively affected by reduced corporate and convention business.

ATLANTIC

InnVest's original portfolio of Atlantic region hotels posted strong growth during the quarter with room revenue increasing by \$282 or 5.5% as 12 out of 17 hotels posted improvements in the quarter. This result has been achieved despite new competition in certain markets within this region.

WESTERN

Room revenue in InnVest's original portfolio of Western region hotels remained stable from the prior year. Increases in the majority of the markets where the REIT operates hotels were offset by declines in the Regina market.

OVERALL HOTEL PORTFOLIO

The \$11.5 million improvement in room revenues in the fourth quarter primarily reflects the recent acquisitions, which provided \$10.4 million in additional revenues. The remaining \$1.1 million reflects the increase in room revenues in our original portfolio with 47.4% or \$511 of this improvement achieved through the recovery in the non-GTA Ontario properties. The remainder of the improvement was achieved evenly throughout Quebec and the Atlantic regions.

NON-ROOM REVENUES

Non-room revenues for the three months ended December 31, 2004 account for \$9.5 million or 14.1% (2003 – \$4.0 or 7.9%) of total hotel revenues. The mix of room revenues and non-room revenues has changed from the prior year because the acquired hotels compete in the mid-scale with food and beverage sector and earn a higher proportion of total revenues from non-room revenues.

Non-room revenues increased \$5.5 million primarily reflecting non-room revenues generated by the REIT's acquired hotels, a large portion of which is food and beverage revenues.

DEPARTMENTAL OPERATING PROFIT ANALYSIS

The following chart illustrates the REIT's room and non-room based operating profit for the three months ended December 31, 2004 and for the three months ended December 31, 2003:

	Room operations		Non-room operations		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Original Portfolio	\$ 47,379	\$ 46,300	\$ 4,014	\$ 3,987	\$ 51,393	\$ 50,287
Acquired hotels (1)	10,404	–	5,494	–	15,898	–
Total	57,783	46,300	9,508	3,987	67,291	50,287
Direct expenses						
Original Portfolio	12,796	12,021	2,762	2,888	15,558	14,909
Acquired hotels (1)	2,774	–	3,988	–	6,762	–
Total	15,570	12,021	6,750	2,888	22,320	14,909
Departmental operating profit						
Original Portfolio	34,583	34,279	1,252	1,099	35,835	35,378
Acquired hotels (1)	7,630	–	1,506	–	9,136	–
Total	\$ 42,213	\$ 34,279	\$ 2,758	\$ 1,099	44,971	35,378
Total undistributed expenses					(20,157)	(14,265)
Gross operating profit					\$ 24,814	\$ 21,113
Gross operating profit margin					36.9%	42.0%
Departmental operating profit margin						
Original Portfolio	73.0%	74.0%	31.2%	27.6%	69.7%	70.4%
Acquired hotels (1)	73.3%	–	27.4%	–	57.5%	–
Total	73.1%	74.0%	29.0%	27.6%	66.8%	70.4%

(1) The acquired hotels were acquired by the REIT during 2004 and are not included in the results of the REIT in 2003.

The rooms departmental operating profit margin for the original portfolio declined slightly by 1.0 point. This is primarily attributable to increases in expenses related to the operation of a new computer property management system, marketing costs associated with an enhanced customer loyalty program and free continental breakfast programs added

to a number of hotels. The rooms operating profit margin of the acquired hotels was consistent with that of the original portfolio. In aggregate, the REIT's operating profit margin declined by 0.9 points during the quarter relative to the prior year, but the absolute gross operating profit was significantly higher.

The non-room operating profit margin increased by 1.4 points over the prior year. This is a result of a 3.6 point improvement in the original portfolio, offset by the lower operating margin generated by the acquired hotels relative to the original portfolio. This is due to the nature of the acquired hotels relative to the original portfolio. Mid-scale hotels typically generate lower non-room operating profit margins than limited service hotels, but higher cash flows on a per room basis.

Overall gross operating profit margin decreased 5.1 points. This is due to the increased percentage of the overall revenues being generated from non-room operations by the acquired hotels relative to the original portfolio of hotels.

HOTEL EXPENSES

Hotel expenses for the three months ended December 31, 2004 increased by \$14.7 million or 41.9% compared to the previous year. This primarily reflects \$13.0 million in expenses incurred in the acquired hotels. Of the total increase, \$1.7 million relates to our original portfolio, representing a 4.9% increase over the prior year. In the original portfolio, room expenses increased \$775 as a result of increases in free continental breakfast costs at Comfort Inns and Quality Hotels and Suites locations and the installation of the new property management system. Administrative and general expense increased \$232, generally as the result of increased payroll costs. Marketing expense increased \$631 primarily due to enhanced guest loyalty programs.

HOTEL OPERATING INCOME

Hotel operating income ("HOI") for the three months ended December 31, 2004 increased by \$2.3 million to \$17.6 million from \$15.3 million in the fourth quarter of 2003. This was a result of higher hotel revenues of \$17.0 million along with an increase in hotel expenses of \$14.7 million, both of which are mainly attributable to the acquired hotels.

A geographical comparison of the hotel operating income variance between the three months ended December 31, 2004 and the three months ended December 31, 2003 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2003
Original Portfolio						
Greater Toronto Area ("GTA")	10	1,755	13.2%	\$ (150)	(6.4%)	(6.4%)
Ontario other	45	4,115	31.0%	(172)	(7.3%)	(2.7%)
Total Ontario	55	5,870	44.2%	(322)	(13.7%)	(3.7%)
Quebec	28	2,544	19.2%	(158)	(6.7%)	(4.6%)
Atlantic	17	1,315	9.9%	39	1.6%	2.1%
Western	14	1,822	13.7%	(161)	(6.9%)	(12.0%)
Sub-total	114	11,551	87.0%	(602)	(25.7%)	(3.9%)
Acquired Hotels	10	1,721	13.0%	2,947	125.7%	100.0%
Total	124	13,272	100.0%	\$ 2,345	100.0%	15.3%

The entire increase in HOI is attributable to the acquired hotels which contributed \$2.9 million to the REIT's HOI during the quarter. The original portfolio experienced a 3.9% decline in HOI in the quarter as increases in expenses, as explained above in the discussion on margin compression, outpaced revenue increases. All regions experienced this reduction with the exception of the Atlantic region.

OTHER INCOME AND EXPENSES

The net amount of other income and expenses for the fourth quarter was \$16.5 million, an increase of \$2.7 million or 19.3% over the same period in 2003. The main contributors to this change were increased interest on mortgages and depreciation and amortization of \$974 and \$1.4 million respectively reflecting our recent acquisitions.

INCOME TAXES

Current income tax expense for the three months ended December 31, 2004 was \$73, an increase of \$1.5 million from the previous year. This increase is attributable to a lower benefit recognized from the expected tax loss generated in corporate subsidiaries of the REIT in the current period versus the benefit recognized in the same period of the previous year. InnVest experienced a \$16.8 million future income tax expense improvement over the prior period as a result of the reversal of previously planned corporate income tax rate reductions in the province of Ontario in the fourth quarter of 2003.

NET INCOME

InnVest's net income for the three months ended December 31, 2004 was \$1.5 million or \$(0.032) per unit – basic (diluted – \$(0.032)), compared with net loss for the three months ended December 31, 2003 of \$13.4 million or \$(0.374) per unit – basic (diluted – \$(0.374)). The variance of \$14.9 million is a result of higher HOI of \$2.3 million offset by an increase in other expenses of \$2.7 million, the decrease in the current income tax benefit recognized of \$1.5 million and the decrease in the future income tax expense of \$16.8 million.

FUNDS FROM OPERATIONS

FFO for the three months ended December 31, 2004 was \$10.3 million, which is \$484 lower than the \$10.8 million in the prior year. After eliminating the tax loss benefits recognized in each period the adjusted FFO for the three months ended December 31, 2004 was \$10.2 million, which is \$985 higher than the prior year.

DISTRIBUTABLE INCOME

Distributable income for the three months ended December 31, 2004 was \$5.6 million or \$0.122 per unit – basic (diluted – \$0.121). This reflects a \$1.4 million decrease from the distributable income achieved for the three months ended December 31, 2003 of \$7.0 million or \$0.170 per unit – basic (diluted – \$0.170). This decrease is eliminated after adjusting for the income tax loss benefits recognized in each period.

CHANGES IN FINANCIAL CONDITION

The following discussion evaluates the cash flow results of InnVest from operational, investing, and financing activities for the three months and year ended December 31, 2004.

OPERATING ACTIVITIES

Funds generated from operating activities increased \$1.5 million to \$12.8 million for the three months ended December 31, 2004 from \$11.3 million for the three months ended December 31, 2003. The increase is mainly attributable to a \$1.5 million increase in non-cash working capital as summarized below:

	Year ended December 31		
	2004	2003	Variance
Accounts receivable	\$ 4,066	\$ 2,819	\$ 1,247
Prepaid expense and other assets	3,673	2,617	1,056
Accounts payable and accrued liabilities	(5,660)	(4,881)	(779)
	\$ 2,079	\$ 555	\$ 1,524

The \$1.2 million increase in non-cash working capital arising from accounts receivable is primarily due to the receipt of an income tax refund recorded as receivable in a prior period. The \$1.1 million increase in non-cash working capital from prepaid expense and other assets is due to the funding the reserve for property taxes related to the financing

of the acquired hotels, net of a prepayment of insurance for the REIT's properties and directors' and officers' insurance, which was paid in full during the third quarter for the period through to the end of June 2005. In the past, the REIT paid such expenses on a monthly basis. Lastly, the \$779 reduction in non-cash working capital arising from accounts payable and accrued liabilities is due to the net of the payment in the quarter and the year end accrual for the Series A convertible debentures interest of \$1.0 million, the payment of acquisition related costs, less one month of accrued interest on the mortgage debt secured by the acquired hotels.

FINANCING ACTIVITIES

Funds used in financing activities increased \$5.2 million to \$20.0 million for the three months ended December 31, 2004 from \$14.8 million for the three months ended December 31, 2003. An increase in the repayment of long-term debt accounts for \$3.0 million of this variance, of which \$2.5 million relates to a delayed funding of a mortgage debt repaid in October 2004, planned to save interest expense. The balance is an increase in regularly scheduled principal payments related to financing on the acquired hotels. The \$2.5 million delayed mortgage funding was advanced early in 2005. Cash distributions and convertible debentures interest were higher than in the same period in the prior year by \$1.1 million and \$851 respectively as the result of the Trust unit issue and convertible debentures issue in April 2004.

INVESTING ACTIVITIES

Funds used for investing activities were \$3.4 million for the three months ended December 31, 2004 compared to \$2.0 million for the three months ended December 31, 2003. This increase was primarily the result of a \$1.6 million increase in capital expenditures.

For the three months ended December 31, 2004 and 2003 a total amount of \$3.6 million and \$2.0 million respectively was spent on capital items. The FF&E reserve balance at December 31, 2004 was \$17.0 million, a decrease of \$883 during the quarter.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

The following chart summarizes InnVest's future contractual obligations as at December 31, 2004:

	2005	2006	2007	2008	2009	2010 and thereafter	Total
Mortgages payable	\$ 6,949	\$ 136,593	\$ 4,694	\$ 154,491	\$ 1,599	\$ 53,668	\$ 357,994
Capital lease obligation	93	87	93	100	113	1,663	2,149
Operating equipment leases	518	500	393	290	257	222	2,180
Long-term land leases	1,542	1,485	1,316	1,320	1,340	75,095	82,098
Convertible debentures	-	-	74,470	-	-	57,500	131,970
	\$ 9,102	\$ 138,665	\$ 80,966	\$ 156,201	\$ 3,309	\$ 188,148	\$ 576,391

The next material refinancing to occur will be in 2006 when \$136.6 million of long-term debt with a weighted average interest rate of 6.9% matures. At that time, InnVest will seek refinancing of the debt. InnVest will follow the same strategy in 2008, when \$154.5 million of long-term debt with a weighted average interest rate of 7.3% matures.

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

The following chart illustrates the REIT's generation of distributable income relative to cash distributions paid to unitholders for the three months and year ended December 31, 2004, year ended December 31, 2003, period ended December 31, 2002, and cumulatively from July 26, 2002 to December 31, 2004:

	Three months ended Dec 31, 2004	Year ended Dec 31, 2004	Year ended Dec 31, 2003	⁽¹⁾ Period ended Dec 31, 2002	Cumulative July 26, 2002 to Dec 31, 2004
Distributable Income	\$ 5,566	\$ 44,269	\$ 39,455	\$ 25,263	\$ 108,987
Distributions	12,878	50,164	46,280	20,000	116,444
Distributable income in excess (deficit) of distributions	(7,312)	(5,895)	(6,825)	5,263	(7,457)
Non-cash distributions made through the distribution reinvestment plan ("DRIP")	865	3,168	1,367	–	4,535
Distributable income in excess (deficit) of cash distributions	\$ (6,447)	\$ (2,727)	\$ (5,458)	\$ 5,263	\$ (2,922)
Payout ratios:					
Total distributions	231.4%	113.3%	117.3%	79.2%	106.8%
Cash distributions (total distributions minus DRIP)	215.8%	106.2%	113.8%	79.2%	102.7%

(1) For the period from July 26, 2002 to December 31, 2002

The payout ratio of the REIT is best evaluated on an annualized basis over a 12 month period due to the seasonal nature of the hotel industry. As shown, the REIT's payout ratio was 113.3% for the year ended December 31, 2004, or 106.2% on a cash basis. On a cumulative basis from the inception of the REIT on July 26, 2002, the payout ratio has been 106.8% or 102.7% on a cash basis. Liquidity to fund distributions is generated from cash flow from hotel operations, the 50% interest in Choice Canada, cash on hand, bank operating lines available, excess cash raised via equity and convertible debentures pursuant to a prospectus dated March 23, 2004 and by the ability to finance certain unencumbered or under-leveraged assets.

Distributions to unitholders are approved by the REIT's Board of Trustees. In exercising their discretion to approve the level of distributions, the Trustees use internal forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to continual change due to the nature of the Canadian hotel industry, which is difficult to predict even in the short-run. This is due to the following factors:

1. Its exposure to the overall cyclical effects of the Canadian business environment;
2. The seasonal nature of our business;
3. Our geographical diversity. Our hotels are located in numerous regions throughout Canada each with its own unique characteristics;
4. Changing customer sentiment toward brands which the REIT's hotel properties use;
5. Changes in customer segmentation due to changing social, economic and political conditions; and
6. Numerous other macroeconomic, social and geopolitical factors which are beyond the control of the REIT.

All of these factors can have a material effect on the REIT's revenue and cost structure. A recent example is the significant impact of SARS on the Canadian hotel industry in 2003. As a result of the REIT's exposure to numerous factors which are beyond its control, it is difficult for management of the REIT to make predictions concerning distribution levels for future quarters and, as a result, management asserts that it would not be prudent to provide investors or potential investors with forward-looking information regarding distribution levels.

The REIT is structured to segregate the ownership and operations of the hotel properties. The bricks and mortar are owned directly by the REIT and underlying corporate subsidiaries. The operations of the hotels and ownership of the

chattels are held through partnership subsidiaries. The inter-entity relationships between the operations and ownership structures are governed by leasing and inter-entity debt agreements, the terms of which are at commercial rates considered acceptable for income tax purposes. The structure allows for the efficient access to cash generated through the operations of the hotels, and flow through of income and tax deductions to the REIT's unitholders.

CAPITAL RESOURCES

The REIT's cash position at December 31, 2004 was \$39.7 million of which \$17.0 million is restricted under the REIT's trust indenture for the replacement of furniture, fixtures, and equipment and for capital improvements. The REIT's intention is to use its unrestricted cash in excess of working capital requirements for acquisitions.

InnVest sets aside 4% of total hotel revenue for the purpose of the replacement of furniture, fixtures and equipment and for capital improvements. Capital expenditures committed and yet to be incurred at December 31, 2004 were \$850. The current expectation is that capital spending in 2005 will exceed 2004 levels.

The following chart shows the changes in the restricted cash balance for the three months and year ended December 31, 2004 along with their comparable periods:

	Three months ended December 31		Year ended December 31	
	2004	2003	2004	2003
Opening balance	\$ 17,907	\$ 13,390	\$ 13,381	\$ 12,075
4% of revenues	2,690	2,012	11,170	8,969
Transferred from operating cash	—	(3)	—	—
Initial reserve - acquired hotels	—	—	6,100	—
Capital expenditures	(3,573)	(2,018)	(13,627)	(7,663)
Closing balance	\$ 17,024	\$ 13,381	\$ 17,024	\$ 13,381

The REIT had unused operating loan availability of \$25 million at December 31, 2004 and four hotel properties that remain unencumbered that the REIT estimates could generate at least \$6.5 million in mortgage proceeds. The REIT also has an unused acquisition facility of \$40 million available to acquire hotel properties and an unused loan facility of \$24 million available to fund 50% of capital expenditures incurred.

During the three months ended December 31, 2004, the REIT distributed \$12.9 million or \$0.2813 per unit, of which \$865 was distributed in units as part of the Distribution Reinvestment Plan ("DRIP") at the rate of \$0.09375 per unit per month, with an additional 3% premium attached to the unit distribution. This brings the total distributions for the year ended December 31, 2004 to \$50.2 million or \$1.125 per unit, of which \$3.2 million was distributed in units as part of the DRIP. A regular monthly distribution of \$0.09375 per unit for the month of December 2004 was paid in January 2005 and the distribution of \$0.09375 per unit for the month of January 2005 was paid in February 2005. A distribution at the same rate for February 2005 was declared and will be payable on March 15, 2005.

The REIT has a \$100 million mortgage loan facility with its main mortgage lender which is available to repay mortgage debts as they mature. Mortgage debts with a weighted average interest rate of 7.9% maturing through to the end of 2005 total \$40.3 million. The remaining availability of this facility is \$45.8 million. Consequently, the REIT has minimal refinancing risk until 2006.

InnVest expects to make cash distributions to its unitholders, based on cash flow to be generated from operations after non-cash distributions satisfied through the distribution reinvestment plan ("DRIP"), and its current cash position. Future growth is expected to be funded from cash on hand and borrowing capacity and through the issuance of trust units.

ISSUED TRUST UNITS

As at December 31, 2004 a total of 45,815,071 units of the REIT were outstanding. There is only one class of trust units, with each unit eligible for one vote. For the year ended December 31, 2004 and subsequent, units of the REIT were issued as follows:

	Units	Amount
Balance at December 31, 2003	41,247,862	\$ 389,310
First quarter activity		
Units issued under trustee compensation plan	4,678	53
Units issued under DRIP	60,484	671
Units issued upon conversion of debentures	46,511	505
Balance at March 31, 2004	41,359,535	\$ 390,539
Second quarter activity		
Units issued under prospectus dated March 23, 2004	4,187,000	45,281
Units issued under trustee compensation plan	2,900	30
Units issued under DRIP	75,870	777
Units issued upon conversion of debentures	2,790	30
Balance at June 30, 2004	45,628,095	\$ 436,657
Third quarter activity		
Units issued under DRIP	80,333	855
Units issued under trustee compensation plan	2,709	30
Units issued under executive compensation plan	20,573	220
Balance at September 30, 2004	45,731,710	\$ 437,762
Fourth quarter activity		
Units issued under DRIP	80,662	865
Units issued under trustee compensation plan	2,699	30
Balance at December 31, 2004	45,815,071	\$ 438,657
Activity subsequent to December 31, 2004		
Units issued under DRIP	72,359	849
Units issued under trustee compensation plan	2,561	30
Units issued upon conversion of debentures	95,345	1,025
Balance at March 21, 2005	45,985,336	\$ 440,561

There are a total of \$74.5 million in outstanding convertible unsecured subordinated debentures at December 31, 2004 from the initial series of debentures issued July 26, 2002. These debentures are convertible into trust units at a strike price of \$10.75, bear interest at 9.75% per annum payable semi-annually in arrears on June 30 and December 30 in each year and are due June 30, 2007. The total remaining trust units to be issued upon conversion for this series of debentures is 6,927,442.

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

Subsequent to December 31, 2004 a total of \$945 of the Initial Series of convertible debentures were converted at a price of \$10.75 per unit and 87,904 units were issued.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HISTORICAL QUARTERLY AND ANNUAL OPERATING RESULTS COMPARISON

InnVest has audited results for the years ended December 31, 2004 and 2003. The following is therefore a year-over-year comparison of hotel operating results for the quarters of 2004 and 2003 using unaudited results for each quarter.

	Year Ended					Year Ended				
	Quarter Ended					Quarter Ended				
	Dec 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Dec 31	Sept 30	June 30	Mar 31
	2004	2004	2004	2004	2004	2003	2003	2003	2003	2003
Occupancy	62.0%	56.3%	73.8%	63.8%	53.0%	60.3%	55.4%	71.0%	61.0%	53.6%
Average daily rates	\$ 85.67	\$ 84.11	\$ 92.44	\$ 85.32	\$ 77.13	\$ 81.77	\$ 78.70	\$ 87.20	\$ 81.67	\$ 77.79
Revenue per available room	\$ 53.12	\$ 47.32	\$ 68.24	\$ 54.39	\$ 40.86	\$ 49.28	\$ 43.57	\$ 61.91	\$ 49.82	\$ 41.69
Room revenues	\$ 248,331	\$ 57,783	\$ 83,320	\$ 64,283	\$ 42,946	\$ 207,784	\$ 46,300	\$ 65,786	\$ 52,363	\$ 43,335
Total revenues	\$ 279,297	\$ 67,291	\$ 92,995	\$ 72,498	\$ 46,513	\$ 224,216	\$ 50,287	\$ 70,306	\$ 56,318	\$ 47,305
Hotel operating expenses										
and management fees	\$ 158,960	\$ 42,477	\$ 47,132	\$ 40,430	\$ 28,921	\$ 120,444	\$ 29,174	\$ 32,327	\$ 29,537	\$ 29,406
Gross operating profit	\$ 120,337	\$ 24,814	\$ 45,863	\$ 32,068	\$ 17,592	\$ 103,772	\$ 21,113	\$ 37,979	\$ 26,781	\$ 17,899
Gross operating profit margin	43.1%	36.9%	49.3%	44.2%	37.8%	46.3%	42.0%	54.0%	47.6%	37.8%
Property taxes, rent and insurance	\$ 27,492	\$ 7,181	\$ 7,036	\$ 7,142	\$ 6,133	\$ 23,562	\$ 5,823	\$ 5,931	\$ 5,865	\$ 5,943
Hotel operating income	\$ 92,845	\$ 17,633	\$ 38,827	\$ 24,926	\$ 11,459	\$ 80,210	\$ 15,290	\$ 32,048	\$ 20,916	\$ 11,956
Hotel operating income margin	33.2%	26.2%	41.8%	34.4%	24.6%	35.8%	30.4%	45.6%	37.1%	25.3%
Net income (loss)	\$ 31,236	\$ 1,531	\$ 22,878	\$ 9,695	\$ (2,868)	\$ 10,858	\$ (13,414)	\$ 19,712	\$ 6,914	\$ (2,354)
Net income (loss) per unit										
– basic	\$ 0.457	\$ (0.031)	\$ 0.435	\$ 0.148	\$ 0.117	\$ 0.071	\$ (0.374)	\$ 0.431	\$ 0.120	\$ (0.106)
– diluted	\$ 0.456	\$ (0.031)	\$ 0.400	\$ 0.148	\$ 0.117	\$ 0.071	\$ (0.374)	\$ 0.410	\$ 0.120	\$ (0.106)
Distributable income	\$ 44,269	\$ 5,566	\$ 25,717	\$ 12,207	\$ 779	\$ 39,455	\$ 6,990	\$ 21,337	\$ 10,019	\$ 1,109
Distributions paid	\$ 50,164	\$ 12,878	\$ 12,854	\$ 12,813	\$ 11,619	\$ 46,280	\$ 11,594	\$ 11,577	\$ 11,556	\$ 11,553
Distributable income per unit										
– basic	\$ 0.994	\$ 0.122	\$ 0.563	\$ 0.269	\$ 0.019	\$ 0.959	\$ 0.170	\$ 0.519	\$ 0.244	\$ 0.027
– diluted	\$ 0.986	\$ 0.121	\$ 0.497	\$ 0.262	\$ 0.019	\$ 0.959	\$ 0.170	\$ 0.481	\$ 0.244	\$ 0.027
Trust units outstanding	45,815,071	45,815,071	45,731,710	45,628,095	41,359,535	41,247,862	41,247,862	41,179,554	41,096,747	41,082,720
Weighted average of trust										
units outstanding	44,555,646	45,774,687	45,683,379	45,445,996	41,292,952	41,130,961	41,214,890	41,140,075	41,087,537	41,079,756
Total assets	\$ 1,021,464	\$ 1,021,464	\$ 1,047,475	\$ 1,030,037	\$ 883,783	\$ 887,054	\$ 887,054	\$ 904,148	\$ 901,686	\$ 912,501
Total long-term debt	\$ 360,143	\$ 360,143	\$ 364,598	\$ 360,021	\$ 309,009	\$ 310,926	\$ 310,926	\$ 312,896	\$ 314,236	\$ 317,223

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue 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 because leisure travel tends to be lower. The results from operations vary materially from quarter to quarter because of the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, depreciation and amortization, corporate and administrative are fixed or virtually fixed.

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

RevPAR variance for the quarters ended:	%
December 31, 2004 ⁽¹⁾	2.0%
September 30, 2004 ⁽¹⁾	6.0%
June 30, 2004 ⁽¹⁾	4.9%
March 31, 2004	-2.0%
December 31, 2003	-3.0%
September 30, 2003	-11.4%
June 30, 2003	-12.1%

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

RISKS AND UNCERTAINTIES

The REIT is subject to the normal operating risks consistent with hotel ownership, including the risks described below. The REIT has risk management processes in place, and additionally mitigates business risks through restrictions, limitations and policies placed upon it by its Declaration of Trust as outlined on page 16.

REAL ESTATE INVESTMENT RISKS

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

HOTEL INDUSTRY RISKS

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

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

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

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

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

ACCOUNTING POLICIES

RELATED PARTY TRANSACTIONS

Franchise business

InnVest owns 50% of Choice Canada. The other 50% is owned by Choice Hotels International, which is one of the largest hotel franchise companies in the world. Choice Canada earns franchise revenue by charging monthly royalty fees to hotel owners based on a percentage of the licenced hotels' revenue and by selling franchises. Under the terms of the joint venture agreement between Choice International and a subsidiary of the REIT, InnVest pays a below market royalty fee for its hotels that are franchised under the Choice hotel brands. This arrangement will remain in place for the duration of the joint venture until 2092. Royalty payments paid to Choice Canada by the REIT on a net basis for the three months and year ended December 31, 2004 totaled \$130 and \$542 respectively.

Management company

On July 26, 2002, the REIT entered into a management agreement for hotel management and accounting services and an administrative services agreement ("the Agreements") with Westmont. Westmont is controlled by a minority unitholder of the REIT. The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire July 25, 2012. The Agreements are subject to non-competition arrangements. The Agreements provide for the payment of an annual management fee to Westmont equal to 3.375% of gross hotel revenue during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of \$1.25 per unit. No management incentive fees were paid in the three months and year ended December 31, 2004.

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

HEDGING TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

A description of the REIT's significant accounting policies is summarized in Note 2 to the consolidated financial statements. GAAP requires management to make estimates and assumptions concerning the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Management uses its judgment and knowledge from past experience as a basis for estimates and other assumptions required in the preparation of the financial statements. Management's estimates and assumptions are evaluated and updated on a regular basis. The actual results for the REIT may materially differ, if management were to use different estimates and assumptions. The following accounting estimates are what management considers the most critical in the preparation of the REIT's consolidated financial statements.

Hotel properties

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

Allocation of Purchase Price for Acquired Hotels

The REIT has accounted for the acquired hotels using the purchase method of accounting. Accordingly, management undertook a process of identifying all tangible and intangible assets acquired and has made an allocation based on their fair value.

Valuation of hotel properties

GAAP requires that long-lived assets be written down to fair value at such time that it is determined that they have been permanently impaired. In order to determine if any of the hotel properties have been permanently impaired, future cash flows are forecasted for each hotel using its most recent performance and expected trends in each specific market, such as new or expected new hotel supply, local and macroeconomic conditions. Then the undiscounted cash flows are aggregated and compared to the net book value of each hotel. Impairment in value will be recorded if the aggregate undiscounted cash flows are less than the net book value for a specific hotel. Each hotel in the portfolio is currently generating and is forecasted to continue to generate positive operating cash flow sufficient to conclude that no impairment of value exists at the present time.

Income taxes

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of the balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse. The book values of the assets of the REIT's subsidiaries are approximately \$398.4 million higher than their respective tax values. Income taxes will be payable if assets that contribute to this difference are sold at amounts higher than their tax base. The REIT has recorded a future income tax liability of \$136.1 million related to these temporary differences, which will reverse over time.

Fair value of debt instruments

Long-term debt that was assumed on the acquisition of the original portfolio of hotel properties was recorded at its fair value on the date of acquisition, July 26, 2002. The fair value was determined by discounting expected payments on the debts at interest rates being offered to the REIT for debt of the same remaining maturities. In determining interest rates offered to the REIT, management uses the government of Canada benchmark bond yields for the appropriate time period, then adds the expected spread currently being offered to it by various lenders. The difference between the fair value and the face value of the long-term debt was estimated at \$2.7 million, was recorded as an increase to long-term debt and was amortized over approximately two years from the acquisition date through a reduction to interest expense at a rate of approximately \$342 per quarter. During the fourth quarter of 2004, the reduction to interest expense was zero, as the unamortized balance was fully amortized during the third quarter of 2004.

CHANGES IN ACCOUNTING POLICIES

Impairment in value of hotel properties

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

Disposal of long-lived assets and discontinued operations

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

Hedging relationships

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

PENDING CHANGES IN ACCOUNTING POLICIES

Liabilities and equity presentation

Effective for periods beginning on or after November 1, 2004, the CICA has issued new guidance with respect to accounting for financial instruments. This new standard requires certain financial instruments that may be settled in cash or by an issuer's own equity instrument, at the issuer's discretion, by a variable number of the issuer's own equity instruments to be presented as liabilities. The adoption of this new standard will have the effect that the REIT's convertible debentures will have to be reclassified from equity to liabilities and that interest on the debentures will be deducted in the calculation of net income or loss. The new standard will not have any effect on net income or loss per unit as the interest expense on the convertible debentures is currently deducted from earnings for the purpose of the per unit calculations.

OUTLOOK

The recovery in the Canadian hotel industry is continuing, as reflected in the 3.3% improvement in RevPAR experienced by InnVest during the year on a same hotel basis. All regions in the InnVest portfolio experienced increased revenues in the fourth quarter of 2004 over 2003. The majority of this improvement was concentrated in our Ontario properties, most notably in the GTA as it continued to recover from a difficult 2003.

The fundamentals in the industry are continuing to improve. Hotel industry advisors, PKF Consulting, are forecasting a RevPAR improvement of approximately 4% in 2005 on a national basis. InnVest agrees that the overall Canadian hotel industry will improve in 2005 and remains optimistic that its hotels will benefit from this trend.

Along with other hotel owners and managers across Canada, InnVest has experienced higher operating costs in the past few years. Increases in marketing costs related to enhanced customer loyalty programs and the implementation of new property management systems at the Choice branded hotels will put some continued pressure on operating costs; however anticipated increases in RevPAR should slow the decline in operating margins.

The properties acquired in 2004 are performing up to expectations. Despite relatively low transaction activity during the year within the Canadian hotel industry, InnVest successfully executed the acquisition of 10 hotels in 2004. We are now beginning to see an increase in activity and are optimistic that there will be more acquisition opportunities for InnVest in 2005.

FORWARD-LOOKING INFORMATION

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

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

The consolidated financial statements and management's discussion and analysis contained in this annual report are the responsibility of the management of InnVest Real Estate Investment Trust (the "REIT"). To fulfil this responsibility, the REIT maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate, and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the Board of Trustees, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements. Their report as auditors is set out below.

The consolidated financial statements have been further examined by the Board of Trustees and by its Audit Committee, which meets regularly with the auditors and management to review the activities of each. The Audit Committee, which is comprised of three independent trustees, reports to the Board of Trustees.

(Signed)

Kenneth Gibson, President
and Chief Executive Officer

March 2, 2005

(Signed)

Tamara Lawson, Chief Financial Officer
and Secretary

AUDITORS' REPORT

To the Trustees of InnVest Real Estate Investment Trust,

We have audited the consolidated balance sheets of InnVest Real Estate Investment Trust (the "REIT") as at December 31, 2004 and 2003, and the consolidated statements of net income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the REIT's management. Our responsibility is to express an opinion on these 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 about 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 consolidated financial statements present fairly, in all material respects, the financial position of the REIT as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

Deloitte & Touche LLP
Chartered Accountants
Toronto, Ontario

March 2, 2005

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)	December 31, 2004	December 31, 2003
ASSETS		
Current Assets		
Cash	\$ 22,637	\$ 3,958
Accounts receivable	9,518	7,827
Prepaid expenses and other assets	6,283	3,747
	38,438	15,532
Restricted cash (Note 4)	17,024	13,381
Hotel properties (Note 5)	935,473	828,262
Licence contracts (Note 6)	23,117	24,433
Deferred financing and other assets (Note 7)	7,412	5,446
	\$ 1,021,464	\$ 887,054
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 24,452	\$ 17,956
Distributions payable	4,295	3,867
Current portion of long-term debt (Note 9)	7,042	7,043
	35,789	28,866
Long-term debt (Note 9)	353,101	303,883
Future income tax liability (Note 10)	136,115	135,441
	525,005	468,190
Commitments and contingencies (Note 12)		
EQUITY		
Unitholders' equity	362,938	343,240
Convertible debentures (Note 14)	133,521	75,624
	496,459	418,864
	\$ 1,021,464	\$ 887,054

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

CONSOLIDATED STATEMENTS OF NET INCOME

(in thousands of dollars, except per unit amounts)	Year Ended December 31, 2004	Year Ended December 31, 2003
Hotel revenues	\$ 279,297	\$ 224,216
Hotel expenses		
Operating expenses <i>(Note 18)</i>	149,535	112,877
Property taxes, rent and insurance	27,492	23,562
Management fees <i>(Note 18)</i>	9,425	7,567
	186,452	144,006
Hotel operating income	92,845	80,210
Other (income) and expenses		
Interest on mortgages	24,204	22,224
Corporate and administrative <i>(Note 18)</i>	3,827	3,249
Capital tax	1,856	1,619
Franchise business income	(2,747)	(2,605)
Other income	(426)	(249)
Depreciation and amortization	36,938	32,265
	63,652	56,503
Income before income tax (recovery) expense	29,193	23,707
Income tax (recovery) expense <i>(Note 10)</i>		
Current	533	(859)
Future	(2,576)	13,708
	(2,043)	12,849
Net income	\$ 31,236	\$ 10,858
Net income per unit <i>(Note 15)</i>		
– basic	\$ 0.457	\$ 0.071
– diluted	\$ 0.456	\$ 0.071

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

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(in thousands of dollars)	Units in \$	Net Income	Distributions	Executive Compensation	Convertible Debentures Interest and Accretion	Total
Balance at December 31, 2002	\$ 387,744	\$ 20,387	\$ (20,000)	\$ 72	\$ (3,170)	\$ 385,033
Net income	–	10,858	–	–	–	10,858
Unit distributions	–	–	(46,280)	–	–	(46,280)
Distribution reinvestment plan units issued <i>(Note 13)</i>	1,367	–	–	–	–	1,367
Costs incurred regarding the distribution reinvestment plan <i>(Note 13)</i>	(39)	–	–	–	–	(39)
Vested executive compensation <i>(Note 13)</i>	168	–	–	(168)	–	–
Executive and trustee compensation <i>(Note 13)</i>	70	–	–	168	–	238
Convertible debentures interest and accretion	–	–	–	–	(7,937)	(7,937)
Year Ended December 31, 2003	\$ 389,310	\$ 31,245	\$ (66,280)	\$ 72	\$ (11,107)	\$ 343,240
Net income	–	31,236	–	–	–	31,236
Unit distributions	–	–	(50,164)	–	–	(50,164)
Issue of new units	47,522	–	–	–	–	47,522
Costs incurred regarding issue of new units	(2,241)	–	–	–	–	(2,241)
Distribution reinvestment plan units issued <i>(Note 13)</i>	3,168	–	–	–	–	3,168
Conversion of debentures <i>(Note 13)</i>	535	–	–	–	–	535
Vested executive compensation <i>(Note 13)</i>	220	–	–	(220)	–	–
Executive and trustee compensation <i>(Note 13)</i>	143	–	–	374	–	517
Convertible debentures interest and accretion	–	–	–	–	(10,875)	(10,875)
Year Ended December 31, 2004	\$ 438,657	\$ 62,481	\$ (116,444)	\$ 226	\$ (21,982)	\$ 362,938

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars)	Year Ended December 31, 2004	Year Ended December 31, 2003
OPERATING ACTIVITIES		
Net income	\$ 31,236	\$ 10,858
Add (deduct) items not affecting operations		
Depreciation and amortization	35,084	30,802
Amortization of deferred financing and other assets	1,854	1,463
Future income tax (recovery) expense	(2,576)	13,708
Non-cash executive and trustee compensation	517	238
Amortization of fair value debt adjustment	(809)	(1,384)
Changes in non-cash working capital	2,670	(7,540)
	67,976	48,145
FINANCING ACTIVITIES		
Repayment of long-term debt	(48,412)	(26,920)
Proceeds from long-term debt	96,386	19,768
Issue of trust units, net of issue costs	45,281	-
Issue of convertible debentures	57,500	-
Costs incurred regarding the distribution reinvestment plan	-	(39)
Unit distributions	(46,568)	(44,897)
Changes in non-cash working capital related to financing activities	(713)	(2,547)
Deferred financing	(3,305)	-
Convertible debentures interest	(9,948)	(7,313)
	90,221	(61,948)
INVESTING ACTIVITIES		
Capital expenditures on hotel properties	(13,627)	(7,663)
Other assets	(515)	-
Acquisition of hotel properties (Note 3)	(121,733)	-
Changes in restricted cash	(3,643)	(1,306)
	(139,518)	(8,969)
Increase (decrease) in cash during the year	18,679	(22,772)
Cash, beginning of year	3,958	26,730
Cash, end of year	\$ 22,637	\$ 3,958
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 24,720	\$ 23,746
Cash paid for income taxes (including capital tax)	\$ 2,996	\$ 2,990

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

December 31, 2004 and 2003. All dollar amounts are in thousands, except per unit amounts.

1. DESCRIPTION OF BUSINESS

InnVest Real Estate Investment Trust (“InnVest” or the “REIT”) is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations of 114 Canadian hotels with 11,551 guest rooms and its 50% interest in Choice Hotels Canada Inc. (“CHC”), on July 26, 2002. The units of the REIT are traded on the Toronto Stock Exchange under the symbol “INN.UN”. As at December 31, 2004 the REIT owns 124 Canadian hotels with 13,272 guest rooms operated under international brands.

During the year, the REIT acquired ten hotels with 1,721 guest rooms through the execution of two transactions. The acquisitions included a Holiday Inn in Dartmouth, Nova Scotia, seven Holiday Inns located in Ontario, one Holiday Inn located in Calgary, Alberta and a Quality Hotel in Regina, Saskatchewan. (Note 3). These acquisitions were funded through the April 2, 2004 issuance of trust units and convertible debentures and through the proceeds of long-term debt.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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”).

USE OF ESTIMATES

The preparation of the REIT’s financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) 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. Actual results could differ from those estimates.

HOTEL PROPERTIES

Hotel properties, consisting of land, buildings and furniture, fixtures and equipment, are stated at cost less accumulated depreciation.

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

IMPAIRMENT OF LONG-LIVED ASSETS

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

Prior to January 1, 2004 if it was determined that the net recoverable amount was less than the carrying amount of the asset, the long-lived asset would have been written down to its net recoverable amount.

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.

LICENCE CONTRACTS

Licence contracts include franchise contracts related to the REIT's joint venture interest in CHC, and 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 twenty years.

LONG-TERM DEBT

Long-term debt assumed on the acquisition of hotel properties is recorded at their estimated fair value on the date of acquisition (the "fair value amount"). The difference between the fair value amount and the face value of the long-term debt is being amortized to interest expense on a straight-line basis over the then average remaining period until maturity.

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.

Effective January 1, 2004, the REIT uses the straight-line method of recognizing rental revenue on tenant leases. An accrued rent receivable is recorded from tenants and is included in other assets, for the difference between the straight-line rent recorded as revenue and the amount contractually due from the tenants. The amount accrued is deducted from net income when calculating distributable income (Note 16).

HEDGING RELATIONSHIPS

Effective January 1, 2004, InnVest adopted the new CICA guideline with respect to accounting for hedging relationships. The guideline increased the documentation and monitoring required for hedging strategies to be eligible for hedge accounting treatment. The REIT currently has a fixed price contract in place which hedges the cash flows related to utility costs on certain of its properties.

The REIT had the appropriate documentation in place for this hedge at the inception of the hedge and throughout the year ended December 31, 2004. The adoption of this new standard did not have an impact on the REIT's results from operations or financial position.

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 by the REIT's unitholders, including the taxable part of net realized capital gains, 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 the balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

CONVERTIBLE DEBENTURES

Convertible debentures are recorded as equity as the REIT has the ability to satisfy the interest and principal obligation through the issue of units of the REIT. Interest on the debentures is charged against unitholders' equity.

EXECUTIVE COMPENSATION PLAN

The senior executives participate in an incentive plan that involves the issue of REIT units. A unit granted through the plan entitles the holder to receive on the vesting date the then current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into REIT units. The payment will be satisfied through the issuance of units. The benefit resulting from the issue of units under this plan is recorded as compensation expense, on a straight-line basis over the vesting period, based on the market price of the REIT units on the date of grant.

LAND LEASE EXPENSE AND OBLIGATION

Effective January 1, 2004, InnVest adopted the straight-line method of recognizing land lease expense. Accordingly an accrued land lease obligation is recorded in long-term debt for the difference between the straight-line lease expense recorded and the lease amount that is contractually due. The accrued amount is added back to net income when calculating distributable income (Note 16).

3. ASSET ACQUISITIONS

On April 5, 2004, the REIT purchased the Holiday Inn Dartmouth, Nova Scotia, and on April 7, 2004 the REIT purchased eight hotels, of which six are Holiday Inn hotels located in Ontario, one Holiday Inn hotel located in Alberta and one Quality Hotel located in Saskatchewan. On July 1, 2004 the REIT purchased the Holiday Inn Oshawa, Ontario (the "Acquired Hotels").

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

The net assets acquired are as follows:

Cash	\$ 1,095
Current assets	2,305
Hotel properties	127,352
	130,752
Future income tax liability	(3,250)
Assumption of existing long-term lease	(2,052)
Current liabilities	(2,622)
	\$ 122,828

The consideration paid consists of the following:

Cash	\$ 119,062
Payment of land transfer tax and other acquisition costs	3,766
	\$ 122,828

4. RESTRICTED CASH

The restricted cash of \$17,024 (2003 – \$13,381) is being held by various mortgage lenders of the REIT or held in segregated bank accounts of the REIT, and is available to undertake capital refurbishments.

5. HOTEL PROPERTIES

	Cost	Accumulated Depreciation	December 31, 2004 Net Book Value
Land	\$ 73,949	\$ –	\$ 73,949
Buildings	862,402	48,611	813,791
Furniture, fixtures and equipment	74,826	27,093	47,733
	\$1,011,177	\$ 75,704	\$ 935,473

	Cost	Accumulated Depreciation	December 31, 2003 Net Book Value
Land	\$ 58,801	\$ –	\$ 58,801
Buildings	755,963	27,215	728,748
Furniture, fixtures and equipment	55,434	14,721	40,713
	\$ 870,198	\$ 41,936	\$ 828,262

6. LICENCE CONTRACTS

	Cost	Accumulated Amortization	December 31, 2004 Net Book Value
Licence contracts	\$ 26,320	\$ 3,203	\$ 23,117

	Cost	Accumulated Amortization	December 31, 2003 Net Book Value
Licence contracts	\$ 26,320	\$ 1,887	\$ 24,433

7. DEFERRED FINANCING AND OTHER ASSETS

	Cost	Accumulated Amortization	December 31, 2004 Net Book Value
Deferred financing	\$ 10,618	\$ 3,893	\$ 6,725
Other assets	759	72	687
	\$ 11,377	\$ 3,965	\$ 7,412

	Cost	Accumulated Amortization	December 31, 2003 Net Book Value
Deferred financing	\$ 7,313	\$ 2,096	\$ 5,217
Other assets	244	15	229
	\$ 7,557	\$ 2,111	\$ 5,446

8. JOINT VENTURES

The following represents the proportionate share of the REIT's interest in joint ventures:

	December 31, 2004	December 31, 2003
Assets	\$ 7,734	\$ 6,665
Liabilities	3,021	2,439
Revenues	5,187	4,761
Expenses	2,737	2,356
Cash flow from:		
Operating Activities	3,920	2,740
Financing Activities	(3,204)	(2,353)
Investing Activities	(16)	(62)

9. LONG-TERM DEBT

	December 31, 2004	December 31, 2003
Mortgages payable	\$ 357,995	\$ 310,926
Deferred land lease obligation	154	-
Capital lease obligation	1,994	-
	360,143	310,926
Less: current portion	7,042	7,043
Total long-term debt	\$ 353,101	\$ 303,883

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At December 31, 2004, long-term debt had a weighted average interest rate of 7.2% (2003 - 7.4%). The long-term debt is repayable in average monthly payments of principal and interest totalling \$2,774 (2003 - \$2,528) per month, and matures at various dates from July 1, 2005 to October 1, 2017.

The deferred land lease obligation is the difference between the long-term land lease expense using the straight-line method and actual lease payments made in the period.

Scheduled repayment of long-term debt is as follows:

2005	\$ 7,042
2006	136,680
2007	4,787
2008	154,591
2009	1,712
2010 and thereafter	55,331
	\$ 360,143

The estimated fair value of the REIT's long-term debt at December 31, 2004 was approximately \$368,082 (2003 - \$314,604). This estimate was determined by discounting expected cash flows at the interest rates currently being offered to the REIT for debt of the same remaining maturities.

Long-term debt includes \$53,401 (2003 - \$39,191) of mortgages payable, which are subject to floating interest rates. Interest expense will increase by \$534 for every 1% increase in the base Bankers' Acceptance rate.

The REIT has a \$100,000 mortgage loan facility with its main mortgage lender of which \$45,767 is available to refinance mortgage debts held by its various other lenders, as they mature.

10. INCOME TAXES

The future income tax liability relates to tax and book basis differences for assets held by corporate subsidiaries of the REIT and consists of the following:

	December 31, 2004	December 31, 2003
Hotel properties	\$ 132,159	\$ 131,686
Licence contracts	4,062	4,293
Financing costs	(106)	(538)
	\$ 136,115	\$ 135,441

The provision for income taxes is summarized as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003
Income before income tax (recovery) expense	\$ 29,193	\$ 23,707
Income tax based on a combined Federal and Provincial income tax rate of 34.18% (2003 - 36.34%)	\$ 9,978	\$ 8,615
Income tax effect of statutory rate adjustment	-	14,088
Tax effect of income attributable to unitholders	(12,554)	(8,995)
Future income tax (recovery) expense	(2,576)	13,708
Large corporations tax	1,058	1,091
Recovery of income tax paid	(525)	(1,950)
Income tax (recovery) expense	\$ (2,043)	\$ 12,849

In respect of the assets and liabilities of the REIT, where income is taxed directly in the hands of the unitholders, the net book value for accounting purposes of those net assets exceeds their tax basis by an amount of approximately \$89,400 (2003 - \$85,863).

11. GUARANTEES

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

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

TRUSTEE AND OFFICER INDEMNIFICATION AGREEMENTS

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

JOINT VENTURE MORTGAGE GUARANTEE

The REIT and its subsidiaries have provided their guarantee on a mortgage payable by a joint venture in which they have an interest. The REIT and its subsidiaries have the right, if called on this guarantee, to acquire the interest of the lender in the mortgage payable and realize on the security held by such lender. The amount of the mortgage payable is \$1,100.

INDEMNIFICATION OF UNDERWRITERS

The REIT has entered into agreements that provide for indemnification to third parties in underwriting agreements. These indemnifications generally require the REIT to indemnify the counter parties for costs incurred as a result of losses from litigation that may be suffered by the counter parties arising from the transactions. These types of indemnifications normally extend over an unspecified period of time and do not provide for any limit on the maximum potential amount.

12. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

The REIT is committed under various equipment operating leases to minimum annual rental payments as follows:

2005	\$	518
2006		500
2007		393
2008		290
2009		257
2010 and thereafter		222
	\$	2,180

In addition, the REIT is committed under long-term land leases to minimum annual lease payments of approximately \$1,405 (2003 - \$1,292). The land leases expire between 2023 and 2088. Rentals that are determined as a percentage of revenues with no minimum amounts are excluded from these figures.

CONTINGENCIES

The REIT is subject to lawsuits and claims arising in the ordinary course of business. Management believes that the resolution of such matters will not have a material adverse effect on the REIT's financial position or future results of operations.

13. UNITHOLDERS' EQUITY

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

	Units	Amount
Balance at December 31, 2002	41,075,910	\$ 387,744
Units issued under distribution reinvestment plan	145,602	1,367
Costs incurred regarding the distribution reinvestment plan	-	(39)
Units issued under executive compensation plan	18,483	168
Units issued under trustee compensation plan	7,867	70
Year Ended December 31, 2003	41,247,862	\$ 389,310
Units issued under public offering (net)	4,187,000	45,281
Units issued under distribution reinvestment plan	297,349	3,168
Units issued on conversion of debentures	49,301	535
Units issued under executive compensation plan	20,573	220
Units issued under trustee compensation plan	12,986	143
Year Ended December 31, 2004	45,815,071	\$ 438,657

TRUSTEE COMPENSATION PLAN

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then current market price of the units). The REIT has set aside 100,000 units in reserve for this purpose. During the year ended December 31, 2004, 12,986 units were issued (2003 – 7,867 units) under the Trustee Compensation Plan.

EXECUTIVE COMPENSATION PLAN

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

On July 18, 2002, the Board of Trustees approved the granting of 49,500 units to the senior executives for services rendered. The units granted on July 26, 2002 vest equally over a three year period on each annual anniversary date of grant. On July 26, 2004, 16,500 of the originally granted units along with 4,073 units accumulated from distributions vested.

The following table summarizes the status of the executive compensation plan at December 31, 2004:

Date	Unvested Executive Units	Units Accumulated from Distributions	Total Units
July 18, 2002 – granted	49,500	11,024	60,524
January 1, 2003 – granted	17,846	4,426	22,272
January 1, 2004 – granted	11,143	1,195	12,338
July 26, 2003 – units vested	(16,500)	(1,983)	(18,483)
July 26, 2004 – units vested	(16,500)	(4,073)	(20,573)
	45,489	10,589	56,078

April 28, 2004, the Board of Trustees approved the granting of 17,846 units effective as of January 1, 2003 and 11,143 units effective as of January 1, 2004, to the senior executives for services rendered. These units vest equally on the third and fourth anniversary of the effective date of grant.

DISTRIBUTION REINVESTMENT PLAN ("DRIP")

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

14. CONVERTIBLE DEBENTURES

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

	Issue Date	Maturity Date	Interest Rate	Face Amount	Converted to Trust Units	Face Amount Outstanding	Accretion	2004	2003
Initial									
Debentures (a)	July 26, 2002	June 30, 2007	9.75%	\$ 75,000	\$ 530	\$ 74,470	\$ 1,243	\$ 75,713	\$ 75,624
Series A									
Debentures (b)	April 2, 2004	April 15, 2011	6.25%	57,500	–	57,500	308	57,808	–
				\$ 132,500	\$ 530	\$ 131,970	\$ 1,551	\$ 133,521	\$ 75,624

(A) INITIAL DEBENTURES

The Initial Debentures bear interest at the rate of 9.75% per annum payable semi-annually in arrears and mature on June 30, 2007. Each \$1 principal amount of the initial debentures is convertible at the option of the holder into 93.0233 units (representing a conversion price of \$10.75 per unit). These convertible debentures are redeemable, in whole or from time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. The REIT has the option to satisfy its obligation to pay the principal amount of these convertible debentures due at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable. During the year ended December 31, 2004, 49,301 units were issued as a result of conversions of debentures at a price of \$10.75 per unit.

In accordance with GAAP, the holder conversion option was valued separately from the convertible debentures at \$2,850, being the estimated fair market value of the option on the date the security was issued. The debenture discount equal to the value of the option is being accreted to Unitholders' Equity over the term of the initial debentures. During the year ended December 31, 2004, \$5 of the holder conversion option was reclassified to unitholders' equity as accretion attributable to the converted debentures.

(B) SERIES A DEBENTURES

On April 2, 2004, the REIT raised a total amount of \$57,500 in convertible debentures, which bear interest at an annual rate of 6.25% payable semi-annually in arrears on April 15 and October 15 in each year, commencing October 15, 2004. These convertible debentures have a term of seven years and each \$1 principal amount is convertible at the option of the holder, into 80 units (representing the conversion price of \$12.50 per unit). The holder conversion option was valued separately from the convertible debentures at \$2,875. The holder conversion option is being accreted to Unitholders' Equity over the term of the Series A debentures.

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

15. PER UNIT INFORMATION

Net income per unit calculations for the years ended December 31 are based on the following:

	2004		2003	
		Weighted Average Units		Weighted Average Units
Net income	\$ 31,236	44,555,646	\$ 10,858	41,130,961
Convertible debentures interest and accretion	(10,875)	-	(7,937)	-
Net income – basic	20,361	44,555,646	2,921	41,130,961
Dilutive effect of executive compensation plan	-	64,880	-	13,337
Net income – diluted	\$ 20,361	44,620,526	\$ 2,921	41,144,298

Distributable income per unit calculations for the years ended December 31 are based on the following (Note 16):

	2004		2003	
		Weighted Average Units		Weighted Average Units
Distributable income	\$ 44,269	44,555,646	\$ 39,455	41,130,961
Convertible debentures interest	9,948	10,358,589	-	-
Dilutive effect of executive compensation plan	-	64,880	-	13,337
Distributable income – diluted	\$ 54,217	54,979,116	\$ 39,455	41,144,298

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

16. DISTRIBUTABLE INCOME

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

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

	December 31, 2004	December 31, 2003
Net income	\$ 31,236	\$ 10,858
Add (deduct)		
Depreciation and amortization	36,938	32,265
Amortization of fair value debt adjustment	(809)	(1,384)
Future income tax (recovery) expense	(2,576)	13,708
Deferred land lease expense and retail lease income, net	104	–
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(11,170)	(8,969)
Non-cash executive and trustee compensation	494	290
Convertible debentures interest	(9,948)	(7,313)
	13,033	28,597
Distributable income	44,269	39,455
Distributions in excess of distributable income	5,895	6,825
Distributions	\$ 50,164	\$ 46,280
Distributable income per unit – basic	\$ 0.994	\$ 0.959
– diluted	\$ 0.986	\$ 0.959

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

17. FINANCIAL INSTRUMENTS

FAIR VALUE

The REIT's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, distributions payable and long-term debt. Unless disclosed elsewhere in the financial statements the carrying values of the REIT's financial instruments approximate their fair values.

INTEREST RATE RISK

The majority of the REIT's long-term debt bears interest at fixed rates and the REIT has the ability to fix the interest rates on its floating rate of debt at any time. There are no maturities of long-term debt until April 1, 2005. Accordingly, the REIT is not currently subject to material interest rate risk.

CREDIT RISK

Due to the nature of the REIT’s hotel portfolio, whereby there is no material concentration of accounts receivable, the REIT is not exposed to any significant credit risk.

18. MANAGEMENT AGREEMENTS

On July 26, 2002, the REIT entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (“the Agreements”) with Westmont Hospitality Management Canada Limited (“Westmont”). Westmont is controlled by a minority unitholder of the REIT.

The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire July 25, 2012. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross revenues during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of \$1.25 per unit. No management incentive fees were paid during the year. Accounting fees are calculated based on a fixed charge per room which increases by the Consumer Price index change annually.

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

During the years ended December 31, 2004 and 2003, the fees charged to the REIT pursuant to the Agreements were as follows:

	2004	2003
Management fees	\$ 9,425	\$ 7,567
Accounting services (included in hotel operating expenses)	1,937	1,708
Administration services (included in corporate and administrative services)	507	550
Project management and general contractor services (capitalized in hotel properties)	380	205
	\$ 12,249	\$ 10,030

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT, were \$166 (2003 – \$228). Included in accounts payable and accrued liabilities are amounts outstanding at December 31, 2004 totalling \$863 (2003 – \$670).

19. SEGMENTED FINANCIAL INFORMATION

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

	Western	Ontario	Quebec	Atlantic	Total
Year ended December 31, 2004					
Hotel revenues	\$ 30,926	\$ 160,974	\$ 54,748	\$ 32,649	\$ 279,297
Hotel expenses	22,195	109,248	35,023	19,986	186,452
Hotel operating income	\$ 8,731	\$ 51,726	\$ 19,725	\$ 12,663	\$ 92,845
Year ended December 31, 2003					
Hotel revenues	\$ 25,809	\$ 116,479	\$ 55,564	\$ 26,364	\$ 224,216
Hotel expenses	18,227	76,437	34,767	14,575	144,006
Hotel operating income	\$ 7,582	\$ 40,042	\$ 20,797	\$ 11,789	\$ 80,210
Capital expenditures					
Year ended December 31, 2004	\$ 1,497	\$ 8,302	\$ 2,004	\$ 1,824	\$ 13,627
Year ended December 31, 2003	\$ 762	\$ 4,829	\$ 1,477	\$ 595	\$ 7,663
Hotel properties					
December 31, 2004	\$ 80,322	\$ 561,179	\$ 185,155	\$ 108,817	\$ 935,473
December 31, 2003	\$ 65,557	\$ 471,745	\$ 190,184	\$ 100,776	\$ 828,262

20. COMPARATIVE INFORMATION

Certain prior period amounts have been reclassified to conform to the current presentation.

COMFORT INNS

Hotel	Address	Year Built	Guest Rooms				
Alma Comfort Inn	870 avenue du Pont Sud Alma, Quebec	1989	61	Kenora Comfort Inn	1230 Highway 17 East Kenora, Ontario	1990	76
Amherst Comfort Inn	143 South Albion Street Amherst, Nova Scotia	1988	61	Kingston Comfort Inn ¹	55 Warne Crescent Kingston, Ontario	1987	103
Ancienne-Lorette Comfort Inn	1255 boulevard Duplessis Quebec City, Quebec	1985	59	Kirkland Lake Comfort Inn	455 Government Road West Kirkland Lake, Ontario	1987	65
Baie-Comeau Comfort Inn	745 boulevard Lafleche Baie-Comeau, Quebec	1989	61	Laval Comfort Inn	2055 Autoroute des Laurentides Laval, Quebec	1988	121
Beauport Comfort Inn	240 boulevard Ste. Anne Beauport, Quebec	1990	80	Lévis Comfort Inn	10 du Vallon est Levis, Quebec	1988	100
Boucherville Comfort Inn	96 boul. de Mortagne Boucherville, Quebec	1986	100	London Comfort Inn	1156 Wellington Road London, Ontario	1982	79
Brampton Comfort Inn	5 Rutherford Road South Brampton, Ontario	1986	108	Midland Comfort Inn	980 King Street Midland, Ontario	1990	60
Brandon Comfort Inn	925 Middleton Avenue Brandon, Manitoba	1987	81	Miramichi Comfort Inn	201 Edward Street Miramichi, New Brunswick	1988	69
Bridgewater Comfort Inn	49 North Street Bridgewater, Nova Scotia	1990	62	Mississauga Comfort Inn	1500 Matheson Boulevard East Mississauga, Ontario	1982	121
Brossard Comfort Inn	7863 boulevard Taschereau Brossard, Quebec	1988	100	Moncton Magnetic Hill Comfort Inn	2495 Mountain Road Moncton, New Brunswick	1984	59
Burlington Comfort Inn	3290 South Service Road Burlington, Ontario	1982	99	Moncton Maplewood Comfort Inn	20 Maplewood Drive Moncton, New Brunswick	1988	78
Cambridge Comfort Inn	220 Holiday Inn Drive Cambridge, Ontario	1986	83	New Glasgow Comfort Inn	740 Westville Road New Glasgow, Nova Scotia	1987	62
Campbellton Comfort Inn	111 Val D'Amour Road Campbellton, New Brunswick	1988	60	Newmarket Comfort Inn	1230 Journey's End Circle Newmarket, Ontario	1988	102
Charlottetown Comfort Inn	112 Trans Canada Hwy. Charlottetown, Prince Edward Island	1989	81	Orillia Comfort Inn	75 Progress Drive Orillia, Ontario	1989	80
Chatham Comfort Inn	1100 Richmond Street Chatham, Ontario	1986	81	Oshawa Comfort Inn	605 Bloor Street West Oshawa, Ontario	1984	80
Chicoutimi Comfort Inn	1595 boulevard Talbot Chicoutimi, Quebec	1988	81	Ottawa East Comfort Inn	1252 Michael Street Ottawa East, Ontario	1982	69
Chilliwack Comfort Inn	45405 Luckakuck Way Chilliwack, British Columbia	1991	83	Owen Sound Comfort Inn	995 9 th Avenue East Owen Sound, Ontario	1987	60
Cobourg Comfort Inn	121 Densmore Road Cobourg, Ontario	1988	62	Parry Sound Comfort Inn	120 Bowes Street Parry Sound, Ontario	1987	61
Corner Brook Comfort Inn	41 Maple Valley Road Corner Brook, Newfoundland	1988	78	Pembroke Comfort Inn	959 Pembroke Street East Pembroke, Ontario	1985	61
Dartmouth Comfort Inn	456 Windmill Road Dartmouth, Nova Scotia	1984	81	Pickering Comfort Inn	533 Kingston Road Pickering, Ontario	1985	147
Dorval Comfort Inn	340 avenue Michel Jasmin Dorval, Quebec	1988	98	Pointe Claire Comfort Inn	700 boulevard St. Jean Pointe Claire, Quebec	1985	100
Downsview Comfort Inn	66 Norfinch Drive North York, Ontario	1983	144	Prince Albert Comfort Inn	3863 2 nd Avenue West Prince Albert, Saskatchewan	1987	62
Drummondville Comfort Inn	1055 rue Hains Drummondville, Quebec	1985	59	Regina Comfort Inn	3221 East Eastgate Drive Regina, Saskatchewan	1986	99
Dryden Comfort Inn	522 Government Road Dryden, Ontario	1988	62	Rimouski Comfort Inn	455 boulevard St-Germain ouest Rimouski, Quebec	1988	81
Edmonton Comfort Inn	17610 - 100 th Avenue Edmonton, Alberta	1990	100	Rivière-du-Loup Comfort Inn	85 boulevard Cartier Rivière-du-Loup, Quebec	1988	69
Edmundston Comfort Inn	5 Bateman Avenue Edmundston, New Brunswick	1987	81	Rouyn-Noranda Comfort Inn	1295 avenue Larivière Rouyn-Noranda, Quebec	1988	80
Fredericton Comfort Inn	255 Prospect Street West Fredericton, New Brunswick	1984	101	Saint John Comfort Inn	1155 Fairville Blvd. St. John, New Brunswick	1984	59
Gatineau Comfort Inn	630 boulevard la Gappe Gatineau, Quebec	1988	81	Saskatoon Comfort Inn	2155 Northridge Drive Saskatoon, Saskatchewan	1986	80
Guelph Comfort Inn	480 Silvercreek Parkway Guelph, Ontario	1986	80	Sault Ste. Marie Comfort Inn	333 Great Northern Road Sault Ste. Marie, Ontario	1983	82
Hamilton Comfort Inn	173/183 Centennial Parkway N. Hamilton, Ontario	1984	60	Sept-Iles Comfort Inn	854 boulevard Laure Sept-Iles, Quebec	1989	61
Huntsville Comfort Inn	86 King William Street Huntsville, Ontario	1989	73	Sherbrooke Comfort Inn	4295 boulevard Bourque Sherbrooke, Quebec	1985	59
Kanata Comfort Inn	222 Hearst Way Kanata, Ontario	1984	146	Simcoe Comfort Inn	85 The Queensway East Simcoe, Ontario	1986	61
Kapuskasing Comfort Inn	172 Government Road East Kapuskasing, Ontario	1987	66	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 2nd Avenue Comfort Inn	440 2nd Avenue North Sudbury, Ontario	1989	81

¹ InnVest owns 50% of Kingston Comfort Inn

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
Sydney Comfort Inn	368 Kings Road Sydney, Nova Scotia	1987	62
Thetford Mines Comfort Inn	123 boulevard Frontenac ouest 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 Dougall 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

HOLIDAY INNS

Hotel	Address	Year Built	Guest Rooms
Holiday Inn Burlington	3036 South Service Road Burlington, Ontario	1973	240
Holiday Inn Calgary Macleod Trail South	4206 Macleod Trail South Calgary, Alberta	1974	152
Holiday Inn Dartmouth Harbourview	101 Wyse Road Halifax-Dartmouth, Nova Scotia	1966	196
Holiday Inn Guelph	601 Scottsdale Drive Guelph, Ontario	1973	136
Holiday Inn Kingston	2 Princess Street Kingston, Ontario	1965	197
Holiday Inn Hotel and Suites Ottawa-Kanata	101 Kanata Avenue Kanata, Ontario	1999	152
Holiday Inn Oshawa	101 Bloor Street East Oshawa, Ontario	1971	193
Holiday Inn Toronto Airport East	600 Dixon Road Toronto, Ontario	1960's	191
Holiday Inn Toronto West	100 Britannia Road East Mississauga, Ontario	1987	138
North York Holiday Inn Express	30 Norfinch Drive North York, Ontario	1989	163

QUALITY SUITES/QUALITY INNS

Hotel	Address	Year Built	Guest Rooms
Laval Quality Suites	2035 Autoroute des Laurentides Laval, Quebec	1991	115
London Quality Suites	1120 Dearness Drive London, Ontario	1990	118
Montreal Quality Inn	1214 rue Crescent Montreal, Quebec	1966	96
Pointe Claire Quality Suites	6300 Trans Canada Hwy. Pointe Claire, Quebec	1990	162

Quebec City Quality Suites	1600 rue Bouvier Quebec City, Quebec	1989	119
Toronto Airport Quality Suites	262 Carlingview Drive Toronto, Ontario	1989	254
Whitby Quality Suites	1700 Champlain Avenue Whitby, Ontario	1990	104
Windsor Quality Suites	250 Dougall Avenue Windsor, Ontario	1990	128

QUALITY HOTELS

Hotel	Address	Year Built	Guest Rooms
Anjou Quality Hotel	8100 avenue Neuville Anjou, Quebec	1990	158
Bloor Quality Hotel	280 Bloor Street West Toronto, Ontario	1990	209
Lombard Street Quality Hotel Toronto	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
Regina Quality Hotel	1717 Victoria Avenue Regina, Saskatchewan	1962	126
St. John's Quality Hotel	2 Hill O'Chips St. John's, Newfoundland	1990	160
Mississauga Quality Hotel Airport	5599 Ambler Drive Mississauga, Ontario	1982	222

TRAVELODGES

Hotel	Address	Year Built	Guest Rooms
Travelodge Burlington	950 Walkers Line Burlington, Ontario	1985	116
Travelodge Calgary Airport	2750 Sunridge Boulevard NE Calgary, Alberta	1982	203
Travelodge Calgary Macleod Trail	9206 Macleod Trail South Calgary, Alberta	1980	254
Travelodge Edmonton South	10320 - 45 th Avenue South Edmonton, Alberta	1977	219
Travelodge Edmonton West	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

BEST WESTERN

Hotel	Address	Year Built	Guest Rooms
Best Western North Bay	700 Lakeshore Drive North Bay, Ontario	1977	130

TRUSTEES

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The Toronto Stock Exchange
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Inquiries regarding change of address,
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INVESTOR RELATIONS

Email: investor@investreit.com

ANNUAL GENERAL MEETING

4:00 p.m. Eastern Time
Wednesday, May 18, 2005
The Auditorium
TSX (Toronto Stock Exchange)
130 King Street West
Toronto, Ontario, Canada

DISTRIBUTION REINVESTMENT PLAN

Unitholders may acquire units by reinvesting cash
distributions without paying brokerage commissions
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