



InnVest

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For Immediate Release

INNVEST REIT REPORTS SECOND QUARTER RESULTS

Toronto, Canada (August 11, 2010) – InnVest Real Estate Investment Trust (“InnVest” or the “Trust”) (TSX: INN.UN) today announced financial results for the three and six months ended June 30, 2010. Unless otherwise indicated, monetary data is in thousands of dollars, except for per unit, average daily rate (“ADR”), and revenue per available room (“RevPAR”) amounts.

“We are encouraged by our second quarter results which saw RevPAR improve for the first time in almost two years. Cost savings implemented across our portfolio enabled us to generate healthy margin growth further contributing to improving cash flows during the quarter,” commented Kenneth Gibson, InnVest’s President and Chief Executive Officer. “We remain proactive in addressing upcoming debt maturities as demonstrated by our recent convertible debenture announcement.”

Second Quarter Highlights

- Revenue per available room (“RevPAR”) on a same hotel basis improved 4.3% driven by a 2.0 point improvement in occupancy and 0.9% growth in average daily rates (“ADR”). This marked the first quarterly RevPAR growth in nearly two years;
- Overall, hotel revenues increased 2.4%, or \$3.9 million, to \$163.0 million;
- Hotel operating margins improved 80 basis points reflecting the revenue growth achieved. Hotel operating income (“HOI”) increased 5.3% to \$43.6 million;
- InnVest realized net income of \$1.3 million compared to a net loss of \$4.0 million in 2009; and
- Distributable income and funds from operations (“FFO”) both improved modestly. Per unit results for each declined as a result of the higher number of units outstanding in 2010.

FINANCIAL HIGHLIGHTS (unaudited)

	Three months ended June 30			Six months ended June 30		
	2010	2009	+/-	2010	2009	+/-
Occupancy	62.8%	60.6%	2.2%	56.8%	56.5%	0.3%
Average daily rate ("ADR")	\$118.92	\$117.65	\$1.27	\$115.81	\$115.90	(\$0.09)
Revenue Per Available Room ("RevPAR")	\$74.64	\$71.32	\$3.32	\$65.73	\$65.48	\$0.25
Hotel revenues	\$162,963	\$159,081	\$3,882	\$288,152	\$289,955	(\$1,803)
Hotel operating income ⁽¹⁾	\$43,629	\$41,433	\$2,196	\$59,155	\$59,746	(\$591)
Net income (loss) and comprehensive income (loss)	\$1,303	(\$4,007)	\$5,310	(\$25,182)	(\$19,427)	(\$5,755)
Add / (deduct)						
Depreciation and amortization	23,078	22,739	339	46,318	45,451	867
Future income tax recovery	(128)	(850)	722	(561)	(7,781)	7,220
Non-cash executive and trustee compensation	27	86	(59)	83	172	(89)
Net writedown on and sale of assets held for sale	-	499	(499)	-	499	(499)
Writedown of hotel properties	-	5,488	(5,488)	-	5,488	(5,488)
Funds from operations ⁽¹⁾⁽²⁾	\$24,280	\$23,955	\$325	\$20,658	\$24,402	(\$3,744)
Funds from operations per unit						
- basic	\$0.275	\$0.322	(\$0.047)	\$0.235	\$0.328	(\$0.093)
- diluted	\$0.264	\$0.314	(\$0.050)	\$0.234	\$0.327	(\$0.093)
Amortization of deferred financing costs	-	-	-	-	17	(17)
Non-cash portion of mortgage interest expense	412	386	26	894	810	84
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(6,710)	(6,563)	(147)	(11,864)	(11,990)	126
Non-cash portion of convertible debentures interest and accretion	1,096	743	353	1,711	1,527	184
Deferred land lease expense and retail lease income, net	24	2	22	49	4	45
Distributable loss ⁽¹⁾	\$19,102	\$18,523	\$579	\$11,448	\$14,770	(\$3,322)
Distributable loss per unit ⁽³⁾						
- basic	\$0.216	\$0.249	(\$0.033)	\$0.130	\$0.198	(\$0.068)
- diluted	\$0.206	\$0.245	(\$0.039)	\$0.130	\$0.198	(\$0.068)
Distributions per unit ⁽⁴⁾	\$0.1251	\$ 0.1875	(\$0.062)	\$0.2502	\$ 0.3750	(\$0.125)

⁽¹⁾ Hotel operating income, funds from operations and distributable income are non-GAAP measures of earnings and cash flow commonly used by industry analysts. Non-GAAP financial measures do not have a standardized meaning and are unlikely to be comparable to similar measures used by other organizations.

⁽²⁾ For purposes of the calculation of funds from operations, amortization of deferred financing is excluded from depreciation and amortization.

⁽³⁾ Distributable income per unit has been calculated on a basis consistent with that prescribed by GAAP for calculating earnings per unit.

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

The operating statistics relating to room revenues are on a same-hotel basis and exclude hotels that have been classified as discontinued operations or operating leases and hotels that have not been included in operating results for the full periods presented.

	Three months ended June 30, 2010	Variance to 2009	Six months ended June 30, 2010	Variance to 2009
Occupancy				
Ontario	61.3%	2.9 pts	55.3%	0.2 pt
Quebec	63.9%	3.5 pts	58.2%	1.9 pts
Atlantic	62.7%	(1.7 pts)	56.0%	(0.8 pts)
Western	64.2%	0.9 pt	59.8%	(1.5 pts)
Total	62.9%	2.0 pts	56.9%	0.1 pt
ADR				
Ontario	\$109.73	(0.1%)	\$108.73	(1.1%)
Quebec	\$118.24	2.6%	\$112.94	1.7%
Atlantic	\$117.66	(1.5%)	\$111.69	(1.2%)
Western	\$141.64	3.3%	\$138.42	1.0%
Total	\$118.99	0.9%	\$116.11	(0.1%)
RevPAR				
Ontario	\$67.86	4.9%	\$60.08	(0.8%)
Quebec	\$75.59	8.7%	\$65.72	5.2%
Atlantic	\$73.72	(4.1%)	\$62.53	(2.6%)
Western	\$90.94	4.7%	\$82.73	(1.5%)
Total	\$74.82	4.3%	\$66.07	0.1%

FINANCIAL REVIEW (In thousands of dollars, except per unit amounts, unless otherwise stated)***Three months ended June 30, 2010***

Since mid-2008, operating results have been impacted by a soft economic environment. The hospitality industry is highly correlated to the economy given its impact on discretionary travel demand, including demand from corporate and leisure customers. InnVest had seen a slowing rate of decline in year-over-year RevPAR performance over the previous three quarters. The second quarter of 2010 saw the first positive year-over-year RevPAR for the portfolio since the third quarter of 2008. For the three months ended June 30, 2010, hotel revenues increased by \$3.9 million, or 2.4%, to \$163.0 million. Over this period, RevPAR on a same-hotel basis increased 4.3% based on a 0.9% improvement in ADR and a 2.0 point increase in overall occupancy.

Room revenues for the three months ended June 30, 2010 increased \$4.9 million, or 4.0%, to \$127.4 million led by strength in the month of June. Regional performance varied based on broader regional factors. The Quebec region saw strength across all markets, notably Montreal given the return of the Grand Prix and good group activity in June which helped offset new supply to the market. Ontario benefitted from the G8 and G20 meetings held in June which saw RevPAR for the Greater Toronto Area improve over 25% during the quarter. Good corporate transient demand and group activity drove results in the Western region with market compression helping to drive rate growth. The Atlantic region saw RevPAR declines following strong group demand in the previous year.

For the three months ended June 30, 2010, non-room revenues totalled \$35.5 million, down \$978 or 2.7% compared to the prior year despite a 2.0 point improvement in occupancy. Typically, non-room revenues are directly impacted by overall occupancy since higher occupancy results in the increased use of ancillary services offered at our hotels. The decline in second quarter non-room revenues was primarily caused by promotional programs to drive room revenue as well as non-recurring catering events in the prior period.

Hotel expenses for the three months ended June 30, 2010 increased \$1.7 million or 1.4% when compared to 2009. The increase primarily reflects improved occupancies of 2.0 points during the quarter.

Second quarter hotel operating income margins improved 80 basis points to 26.8%, reflecting higher revenues achieved and continued emphasis on cost efficiencies. For the three months ended June 30, 2010, the Trust generated HOI of \$43.6 million, up \$2.2 million or 5.3% as compared to the prior year.

Other income and expenses for the three months ended June 30, 2010 totalled \$42.5 million, compared to \$45.8 million in 2009. The \$3.3 million decrease relates to \$5.5 million writedown taken in the prior period which was somewhat offset by a \$1.6 million increase in interest on mortgages (refinanced a maturing mortgage at a higher rate in the third quarter of 2009) and convertible debentures (InnVest issued a \$50.0 million convertible debenture in late 2009).

InnVest's net income for the three months ended June 30, 2010 totalled \$1.3 million (\$0.015 per unit diluted) compared to a net loss of \$4.0 million (loss of \$0.054 per unit diluted) for the same period in 2009. This variance primarily reflects the \$2.2 million improvement in HOI achieved in 2010 and the writedown realized in 2009 which was partially offset by higher interest expenses in 2010. The per unit results also reflects the higher number of units outstanding in 2010 as compared to 2009 given an equity offering in October 2009 and convertible debentures issued in December 2009.

For the three months ended June 30, 2010, InnVest generated FFO of \$24.3 million (\$0.264 per unit diluted) compared to FFO of \$24.0 million in the prior period (\$0.314 per unit diluted). InnVest generated distributable income of \$19.1 million (\$0.206 per unit diluted) compared to \$18.5 million in the prior year (\$0.245 per unit diluted). The declines in per unit results reflect the higher number of units outstanding in 2010.

Distributions declared in the three months ended June 30, 2010 totalled \$11.1 million compared to \$14.0 million in the prior year. The Trust reduced its monthly distribution to \$0.0417 per unit beginning in September 2009 (from \$0.0625 per unit). This reduction was somewhat offset by the additional units outstanding in 2010. InnVest's payout ratio for the twelve months ended June 30, 2010 was 94.2%. Assuming the current distribution rate and number of units outstanding, this twelve month payout ratio approximates 92.0%.

Six months ended June 30, 2010

For the six months ended June 30, 2010, hotel revenues decreased by \$1.8 million, or 0.6%, to \$288.2 million. Softer results in the first quarter were partially offset by improvements experienced in the second quarter.

Through the first half of the year, RevPAR was relatively unchanged from the prior year, up 0.1%.

Hotel expenses for the six months ended June 30, 2010 decreased \$1.2 million or 0.5% when compared to 2009 despite modest improvement in occupancies over the period. The decrease reflects cost containment initiatives implemented over the last several years in response to declining demand.

For the six months ended June 30, 2010, hotel operating income margins are relatively unchanged at 20.5% compared to 20.6% in the prior period. Lower revenues achieved were offset by continued productivity efficiencies and other savings generated across the portfolio.

For the six months ended June 30, 2010, the Trust generated HOI of \$59.2 million, down 1.0% or \$591 as compared to the prior year.

For the six months ended June 30, 2010, InnVest realized a net loss of \$25.2 million (loss of \$0.286 per unit diluted) compared to a net loss of \$19.4 million (loss of \$0.261 per unit diluted) for the same period in 2009. The variance primarily reflects a \$7.2 million reduction in future income tax recoveries as compared to the prior period. The per unit results also reflect the higher number of units outstanding in 2010 as compared to 2009.

For the six months ended June 30, 2010, InnVest generated FFO of \$20.7 million (\$0.234 per unit diluted) compared to \$24.4 million in the prior period (\$0.327 per unit diluted). InnVest generated distributable income of \$11.4 million (\$0.130 per unit diluted) compared to \$14.8 million in the prior year (\$0.198 per unit diluted).

Distributions declared in the six months ended June 30, 2010 totalled \$22.0 million compared to \$27.9 million in the prior year reflecting the adjusted level of monthly distributions to \$0.0417 per unit beginning in September 2009 (from \$0.0625 per unit). This reduction was somewhat offset by the additional units outstanding in 2010.

BALANCE SHEET REVIEW

At June 30, 2010, InnVest has cash on hand totalling \$78.6 million, of which \$3.5 million is restricted under the Trust's Declaration of Trust for the replacement of furniture, fixtures, and equipment and for capital improvements. The Trust also has access to an undrawn \$40.0 million credit facility.

The Trust has one 2011 mortgage maturity totaling \$264.8 million (secured by seven properties) with a large Canadian institutional lender. This maturity includes two one-year extensions, at InnVest's option, subject to certain minimum thresholds at the time of maturity. Based on current conditions, management estimates that a \$94.0 million paydown will be required to exercise its one year extension. The Trust has reflected this amount as a current portion of long term debt on its balance sheet at June 30, 2010. Yield maintenance and other fees are expected to be incurred. This extension will enable the Trust to secure its one-year renewal interest rate on the remaining balance at the then one-year Composite Swap Rate plus 1.85%. The remaining balance will be due February 28, 2012 and includes an additional one-year extension, at the Trust's option, subject to certain minimum thresholds at the time of maturity. Following this extension, InnVest has no significant mortgage maturities until September 2011.

InnVest's outstanding Series A debentures of \$45.8 million mature in April 2011. Pending closing of the convertible debentures in August 2010, the Trust intends to redeem the Series A debentures (see Recent Developments).

During the six months ended June 30, 2010, 1,239,296 units valued at \$7.1 million were issued as a result of conversion of Series D - 6.75% Debentures.

At June 30, 2010, the Trust's leverage excluding and including convertible debentures was 44.8% and 55.8%, respectively. Assuming the close of its Series E 6.00% Debentures (see Recent Developments), the redemption of Series A 6.25% Debentures and the mortgage paydown on the 2011 maturity, the Trust's pro forma leverage at June 30, 2010 approximates 54.5%.

For the six months ended June 30, 2010, capital expenditures totalled \$13.8 million compared to the Trust's furniture, fixture and equipment reserve ("FF&E reserve") of \$11.9 million. The Trust expects its capital investments to be largely funded through its FF&E reserve and restricted cash on hand during the year.

INCOME TAX DEFERRAL PERCENTAGE

For 2010, the Trust estimates that the non-taxable portion of the distributions made to unitholders during the year will approximate 60% (2009 – 70%).

RECENT DEVELOPMENTS

On July 22, 2010, the Trust announced that it had reached an agreement with a syndicate of underwriters to issue to the public, subject to regulatory approval, on a bought deal basis, \$75.0 million aggregate principal amount of 6.00% convertible unsecured subordinated debentures due September 30, 2017 (the "Series E – 6.00% Debentures"). The Series E – 6.00% Debentures are convertible, at the option of the holder, into trust units of InnVest at \$8.00 per unit. Closing of the offering is expected to occur on or about August 13, 2010. It is intended that the net proceeds from the offering will be used to redeem the outstanding Series A – 6.25% Debentures due April 15, 2011, to repay other indebtedness and for general trust purposes.

QUALIFYING REIT PROCESS

InnVest is pursuing a reorganization in order to become a Qualifying REIT under Canadian income tax rules applicable to SIFT trusts. The reorganization, which will occur under a plan of arrangement, was approved by InnVest's unitholders at its annual and special meeting held June 16, 2010. InnVest has also since received approval from the Ontario Superior Court of Justice to proceed with the plan of arrangement. Pending satisfaction of certain closing conditions, including applicable third party consents, it is anticipated that the reorganization will be completed by the end of 2010.

Under the reorganization InnVest will transfer all of its directly and indirectly held operating assets to a newly-formed trust (InnVest Operations Trust or "IOT"). IOT (through its subsidiaries) will hold the operating assets, earn revenues from hotel customers and pay rent to InnVest (the owner of the hotels).

Each InnVest unitholder will receive one unit of IOT for each InnVest unit held. Thereafter, each issued and outstanding InnVest unit will trade together with a unit of IOT on a "stapled" basis unless the unitholders of InnVest vote in favour of an uncoupling of the stapled units or the REIT's trustees approve an event of bankruptcy or insolvency.

TRUST PROFILE

InnVest holds Canada's largest hotel portfolio together with an interest in Choice Hotels Canada Inc. the largest franchisor of hotels in Canada. The hotel portfolio currently comprises 145 hotel properties, with approximately 19,000 guest rooms, operated under internationally recognized franchise brands such as Comfort Inn®, Holiday Inn® Quality Suites/Inn®, Radisson®, Delta®, Travelodge®, Hilton Hotel®, Staybridge Suites®, Fairmont Hotels®, Sheraton Suites® and Best Western®. InnVest's trust units and outstanding convertible debentures trade on the Toronto Stock Exchange under the symbols INN.UN, INN.DB.A, INN.DB.B, INN.DB.C and INN.DB.D, respectively.

For further information:

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InnVest Real Estate Investment Trust

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (unaudited)

June 30, 2010

December 31, 2009

(Restated, Note 21)

ASSETS

Current Assets

Cash	\$	75,125	\$	101,054
Accounts receivable		27,826		22,591
Prepaid expenses and other assets		16,590		7,962
Asset held for sale (Note 21)		64		33

119,605 131,640

Restricted cash

3,482 3,815

Hotel properties (Note 3)

1,712,997 1,740,642

Other real estate properties (Note 4)

15,958 15,770

Licence contracts (Note 5)

15,879 16,537

Intangible and other assets (Note 6)

30,638 36,120

Asset held for sale (Note 21)

5,685 5,685

\$ 1,904,244 \$ 1,950,209

LIABILITIES

Current Liabilities

Bank indebtedness (Note 7)	\$	6,000	\$	-
Accounts payable and accrued liabilities		75,609		65,676
Acquisition related liabilities		1,958		2,034
Distributions payable		3,710		3,649
Current portion of long-term debt (Note 8)		118,436		21,326
Current portion of convertible debentures (Note 10)		45,171		-
Liabilities related to asset held for sale (Note 21)		46		54

250,930 92,739

Long-term debt (Note 8)

816,533 931,685

Other long-term obligations (Note 9)

7,311 6,448

Convertible debentures (Note 10)

175,959 225,918

Future income tax liability (Note 12)

185,869 186,430

1,436,602 1,443,220

UNITHOLDERS' EQUITY

467,642 506,989

\$ 1,904,244 \$ 1,950,209

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

InnVest Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in thousands of dollars, except per unit amounts) (unaudited)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (Restated, Note 21)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (Restated, Note 21)
Total revenues (Note 19)	\$ 165,952	\$ 161,795	\$ 293,970	\$ 295,398
Hotel revenues	\$ 162,963	\$ 159,081	\$ 288,152	\$ 289,955
Hotel expenses				
Operating expenses (Note 17)	99,749	98,099	190,914	191,382
Property taxes, rent and insurance	13,545	13,658	27,393	27,773
Management fees (Note 17)	6,040	5,891	10,690	11,054
	119,334	117,648	228,997	230,209
Hotel operating income	43,629	41,433	59,155	59,746
Other (income) and expenses				
Interest on mortgages and other debt	14,382	13,909	28,834	27,696
Convertible debentures interest and accretion	4,759	3,604	9,079	7,208
Corporate and administrative (Note 17)	1,460	1,551	2,974	2,910
Capital tax	4	52	38	103
Other business income, net (Note 20)	(1,106)	(1,291)	(2,090)	(2,203)
Other income	(78)	(216)	(179)	(221)
Depreciation and amortization	23,078	22,739	46,318	45,415
Writedown of hotel properties (Note 3)	-	5,488	-	5,488
	42,499	45,836	84,974	86,396
Income (loss) from continuing operations before income tax recovery	1,130	(4,403)	(25,819)	(26,650)
Future income tax recovery (Note 12)	(128)	(850)	(561)	(7,781)
Income (loss) from continuing operations	1,258	(3,553)	(25,258)	(18,869)
Income (loss) from discontinued operations (Note 21)	45	45	76	(59)
Writedown of asset held for sale (Note 21)	-	(499)	-	(499)
	45	(454)	76	(558)
Net income (loss) and comprehensive income (loss)	\$ 1,303	\$ (4,007)	\$ (25,182)	\$ (19,427)
Income (loss) from continuing operations, per unit (Note 15)				
Basic and diluted	\$ 0.014	\$ (0.048)	\$ (0.287)	\$ (0.253)
Net income (loss) per unit (Note 15)				
Basic and diluted	\$ 0.015	\$ (0.054)	\$ (0.286)	\$ (0.261)
Income (loss) from discontinued operations, per unit				
Basic and diluted	\$ 0.001	\$ (0.006)	\$ 0.001	\$ (0.008)

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

InnVest Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(in thousands of dollars) (unaudited)	Cumulative Net Income(Loss) and Comprehensive Income (Loss)	Cumulative Distributions	Deficit	Units in \$	Contributed Surplus	Convertible Debentures Holders' Conversion Option	Total
Balance December 31, 2008	\$ 134,546	\$ (378,164)	\$ (243,618)	\$ 768,034	\$ 2,672	\$ 8,642	\$ 535,730
CHANGES DURING THE PERIOD							
Net loss and comprehensive loss	(19,427)	-	(19,427)	-	-	-	(19,427)
Distributions to unitholders (Note 16)	-	(27,918)	(27,918)	-	-	-	(27,918)
Distribution reinvestment plan units issued (Note 14)	-	-	-	1,349	-	-	1,349
Units repurchased pursuant to normal course issuer bid (Note 14)	-	-	-	(3,467)	2,301	-	(1,166)
Conversion of debentures	-	-	-	20	-	-	20
Vested executive compensation	-	-	-	170	(170)	-	-
Executive and trustee compensation	-	-	-	76	96	-	172
Balance June 30, 2009	\$ 115,119	\$ (406,082)	\$ (290,963)	\$ 766,182	\$ 4,899	\$ 8,642	\$ 488,760
Balance December 31, 2009	\$ 103,623	\$ (429,461)	\$ (325,838)	\$ 815,190	\$ 4,995	\$ 12,642	\$ 506,989
CHANGES DURING THE PERIOD							
Net loss and comprehensive loss	(25,182)	-	(25,182)	-	-	-	(25,182)
Distributions to unitholders (Note 16)	-	(22,049)	(22,049)	-	-	-	(22,049)
Distribution reinvestment plan units issued (Note 14)	-	-	-	1,303	-	-	1,303
Conversion of debentures	-	-	-	7,064	-	(565)	6,499
Vested executive compensation	-	-	-	225	(225)	-	-
Executive and trustee compensation	-	-	-	-	82	-	82
Balance June 30, 2010	\$ 78,441	\$ (451,510)	\$ (373,069)	\$ 823,782	\$ 4,852	\$ 12,077	\$ 467,642

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

InnVest Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars) (unaudited)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (Restated, Note 21)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (Restated, Note 21)
OPERATING ACTIVITIES				
Income (loss) from continuing operations	\$ 1,258	\$ (3,553)	\$ (25,258)	\$ (18,869)
Add (deduct) items not affecting operations				
Depreciation and amortization	23,078	22,739	46,318	45,415
Writedown of hotel properties	-	5,488	-	5,488
Non-cash portion of mortgage interest expense	412	386	894	810
Non-cash portion of convertible debentures interest and accretion	1,096	743	1,711	1,527
Future income tax recovery	(128)	(850)	(561)	(7,781)
Non-cash executive and trustee compensation	27	86	82	172
Discontinued operations	(178)	(87)	37	(429)
Changes in non-cash working capital	(7,170)	(6,616)	(3,881)	(10,156)
	18,395	18,336	19,342	16,177
FINANCING ACTIVITIES				
Repayment of long-term debt	(10,097)	(2,670)	(15,036)	(5,349)
Proceeds from long-term debt	3,100	6,713	3,100	6,713
Units repurchased pursuant to normal course issuer bid (Note 14)	-	(477)	-	(1,166)
Unit distributions	(10,408)	(13,269)	(20,685)	(26,564)
Increase in operating loan	-	1,100	-	21,300
Repayment of bridge loan	-	(2,000)	(1,000)	(2,000)
Discontinued operations repayment of debt	-	(53)	-	(2,939)
	(17,405)	(10,656)	(33,621)	(10,005)
INVESTING ACTIVITIES				
Capital expenditures on hotel properties	(7,794)	(7,312)	(13,785)	(13,280)
Hotel under development expenditures, net	-	-	-	(82)
Change in intangible and other assets	(67)	(662)	(211)	(1,318)
Proceeds from lease arrangement	2,013	-	2,013	-
Proceeds from sale of discontinued asset, net of costs	-	3,675	-	3,675
Vendor-take-back mortgage on sold asset	-	(2,700)	-	(2,700)
Decrease (increase) in restricted cash	208	(640)	333	(99)
	(5,640)	(7,639)	(11,650)	(13,804)
(Decrease) increase in cash during the period	(4,650)	41	(25,929)	(7,632)
Cash, beginning of period	79,775	10,470	101,054	18,143
Cash, end of period	\$ 75,125	\$ 10,511	\$ 75,125	\$ 10,511
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 17,654	\$ 17,387	\$ 34,470	\$ 33,073
Cash paid for income taxes (including capital tax)	\$ 23	\$ 47	\$ 76	\$ 123

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

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 (all dollar amounts are in thousands, except unit and per unit amounts) (unaudited)

1. Basis of Presentation

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. The units of the REIT are traded on the Toronto Stock Exchange under the symbol "INN.UN". As at June 30, 2010, the REIT owned 145 Canadian hotels operated under international brands and has a 50% interest in Choice Hotels Canada Inc. ("CHC").

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2009, except as disclosed in Note 2. These financial statements do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2009.

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 year.

2. Significant Accounting Policies

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS would be effective for the interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will replace Canadian GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be reported. These new standards will be effective for the REIT in the first quarter of 2011.

The REIT is currently in the process of evaluating the potential impact of IFRS on its consolidated financial statements as part of the REIT's IFRS transition project. This will be an ongoing process as the International Accounting Standards Board ("IASB") and the Canadian AcSB issue new standards and recommendations. The REIT's consolidated financial position and results of operations as disclosed in the REIT's current Canadian GAAP financial statements are expected to be significantly different when presented in accordance with IFRS.

3. Hotel Properties

	Cost	Accumulated Depreciation	June 30, 2010 Net Book Value	December 31, 2009 Net Book Value
Land	\$ 185,841	\$ -	\$ 185,841	185,841
Buildings	1,714,647	264,753	1,449,894	1,472,827
Furniture, fixtures and equipment	146,558	69,296	77,262	81,974
	\$ 2,047,046	\$ 334,049	\$ 1,712,997	1,740,642

InnVest Real Estate Investment Trust

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4. Other Real Estate Properties

Other real estate properties include office and retail properties and a retirement residence.

	Cost	Accumulated Depreciation	June 30, 2010 Net Book Value	December 31, 2009 Net Book Value
Land	\$ 1,624	\$ -	\$ 1,624	1,624
Buildings	15,886	1,600	14,286	14,095
Furniture, fixtures and equipment	101	53	48	51
	\$ 17,611	\$ 1,653	\$ 15,958	15,770

5. Licence Contracts

	Cost	Accumulated Amortization	June 30, 2010 Net Book Value	December 31, 2009 Net Book Value
Licence contracts	\$ 26,320	\$ 10,441	\$ 15,879	16,537

During the six months ended June 30, 2010, the license contracts were amortized by \$658 (June 30, 2009 - \$658)

6. Intangible and Other Assets

	Cost	Accumulated Amortization	June 30, 2010 Net Book Value	December 31, 2009 Net Book Value
Intangible Assets:				(Restated, Note 21)
Customer relationships	\$ 46,227	\$ 26,958	\$ 19,269	24,154
Tenant relationships	2,640	1,987	653	895
Franchise rights	3,296	1,347	1,949	1,991
Lease origination costs	6,256	1,116	5,140	5,340
Other	1,038	852	186	299
Total Intangible Assets	59,457	32,260	27,197	32,679
Other Assets:				
Mortgages receivable	3,441	-	3,441	3,441
Total Intangible and Other Assets	\$ 62,898	\$ 32,260	\$ 30,638	36,120

During the six months ended June 30, 2010, the intangible assets were amortized by \$5,692 (June 30, 2009 - \$5,662).

7. Bank Indebtedness

As at June 30, 2010, the bridge loan amount was \$ 6,000 (December 31, 2009 - \$7,000 was reclassified as long-term debt). During the six months ended June 30, 2010, the REIT paid down \$1,000 as part of the extension of the loan to March 1, 2011. The extension bears interest at Canadian Bankers' Acceptance rate plus 3.5% and requires interest payments only. The REIT has provided a hotel as security.

InnVest Real Estate Investment Trust

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8. Long-term Debt

	June 30, 2010	December 31, 2009 (Restated, Note 21)
Mortgages payable	\$ 940,290	\$ 959,158
Less debt issuance costs	(5,321)	(6,147)
Total long-term debt	934,969	953,011
Less current portion	(118,436)	(21,326)
Net long-term debt	\$ 816,533	\$ 931,685

Substantially all of the REIT's assets have been pledged as security under debt agreements. At June 30, 2010, long-term debt had a weighted average interest rate of 5.9% (December 31, 2009 - 5.9%) and a weighted average effective interest rate of 6.1% (December 31, 2009 - 6.1%). The long-term debt is repayable in average monthly payments of principal and interest totalling \$6,248 (December 31, 2009 - \$6,190) and matures at various dates from September 20, 2011 to March 21, 2018.

The REIT has a \$40,000 operating line that is a term facility which bears interest at either, Canadian bank prime rate plus 2.5% or Canadian Bankers' Acceptance rate plus 3.5%. It is secured by 14 properties and is due August 31, 2011. The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties, calculated quarterly on a trailing-four-quarters basis. Based on the operating results of the secured properties for the four quarters ended June 30, 2010, the REIT qualifies for the maximum amount of \$40,000. The amount drawn on the operating line as at June 30, 2010 was \$ nil (December 31, 2009 - \$ nil).

Scheduled repayment of long-term debt is as follows:

	Regular Amortization	Due on Maturity	Total
Remainder of 2010	\$ 13,022	\$ 94,000	\$ 107,022
2011	23,570	50,876	74,446
2012	24,430	176,323	200,753
2013	15,176	156,373	171,549
2014	7,922	288,474	296,396
2015 and thereafter	4,829	85,295	90,124
	\$ 88,949	\$ 851,341	\$ 940,290

The current portion of long-term debt on the balance sheet is based on the twelve months ending June 30, 2011, whereas the repayment schedule above reflects the fiscal year.

The REIT intends to exercise the first of two one-year extension options with one of its major lenders to extend a major facility with a current balance of \$270,645, until February 28, 2012, which includes an estimate pay down of \$94,000. This extension will enable the REIT to secure its one-year renewal interest rate on the remaining balance at the one-year Composite Swap Rate plus 1.85%, at February 28, 2011.

The estimated fair value of the REIT's long-term debt at June 30, 2010 was approximately \$913,133 (December 31, 2009 - \$912,912). This estimate was determined by discounting expected cash flows at interest rates that reflect current market conditions for debt with similar terms, maturities and risk.

Long-term debt includes \$90,325 (December 31, 2009 - \$103,117) of mortgages payable, which are subject to floating interest rates. Annual interest expense will increase by \$903 for every 1% increase in the base Bankers' Acceptance rate.

Interest expense on mortgages and other debt, interest on operating and bridge loans, and convertible debentures interest are considered operating items in the statements of cash flows.

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9. Other Long-term Obligations

	June 30, 2010	December 31, 2009 (Restated, Note 21)
Capital leases	\$ 1,549	\$ 1,549
Other lease obligations	373	319
	1,922	1,868
Less current portion	(120)	(276)
Total lease obligations	1,802	1,592
Pension liability	3,220	3,304
Asset retirement obligation	2,289	1,552
Total other long-term obligations	\$ 7,311	\$ 6,448

Defined Benefit Pension Plans

The defined benefit pension plans are for certain hotels in the REIT. The most recent actuarial valuation with respect to the funding of the REIT's pension plans was prepared on December 31, 2008.

The pension plan liability as at June 30, 2010 consists of the following:

	Management Pension Benefit Plans	Non-Union Management Pension Benefit Plans	June 30, 2010 Total Benefit Plans	December 31, 2009 Total Benefit Plans
Accrued benefit obligation	\$ 4,707	\$ 1,403	\$ 6,110	\$ 5,872
Fair value of plan assets	2,300	1,253	3,553	3,432
Funded status - plan deficit	2,407	150	2,557	2,440
Unamortized net actuarial gain (loss)	769	(106)	663	864
Accrued employee future benefit liability	\$ 3,176	\$ 44	\$ 3,220	\$ 3,304

The pension expense for the six months ended June 30, 2010 is \$200 (June 30, 2009 - \$162).

10. Convertible Debentures

The details of the four series of convertible debentures are outlined in the tables below:

Debenture	Maturity Date	Interest Rate	Effective Interest Rate	Original Face Amount	Converted to Trust Units	Face Amount Outstanding	Holders'		
							Conversion Option	Accretion and Issue Costs	June 30, 2010
Series A	April 15, 2011	6.25%	7.73%	\$ 57,500	\$ (11,736)	\$ 45,764	\$ (2,289)	\$ 1,696	\$ 45,171
Series B	May 31, 2013	6.00%	7.53%	75,000	(20)	74,980	(3,400)	306	71,886
Series C	August 1, 2014	5.85%	7.42%	70,000	-	70,000	(2,953)	(962)	66,085
Series D	March 31, 2016	6.75%	9.41%	50,000	(7,064)	42,936	(3,435)	(1,513)	37,988
				\$ 252,500	\$ (18,820)	\$ 233,680	\$ (12,077)	\$ (473)	\$ 221,130
Less current portion									(45,171)
									\$ 175,959

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10. Convertible Debentures (continued)

The \$45,171 Series A convertible debentures mature on April 15, 2011, therefore are reflected as current portion of convertible debentures on the consolidated balance sheet.

Debenture	Maturity Date	Interest Rate	Effective Interest Rate	Original Face Amount	Converted to Trust Units	Face Amount Outstanding	Holders' Conversion Option	Accretion and Issue Costs	December 31, 2009
Series A	April 15, 2011	6.25%	7.73%	\$ 57,500	\$ (11,736)	\$ 45,764	\$ (2,289)	\$ 1,518	\$ 44,993
Series B	May 31, 2013	6.00%	7.53%	75,000	(20)	74,980	(3,400)	(160)	71,420
Series C	August 1, 2014	5.85%	7.42%	70,000	-	70,000	(2,953)	(1,367)	65,680
Series D	March 31, 2016	6.75%	9.41%	50,000	-	50,000	(4,000)	(2,175)	43,825
				\$ 252,500	\$ (11,756)	\$ 240,744	\$ (12,642)	\$ (2,184)	\$ 225,918

The fair value of the REIT's convertible debentures, estimated based on the market rates for convertible debentures as at June 30, 2010, is \$234,430 (December 31, 2009 - \$234,445).

11. Capital Management

The REIT manages its capital, which is defined as the aggregate of unitholders' equity and debt, under the terms of the Declaration of Trust. The REIT's capital management objectives are (i) to ensure compliance with debt and investment restrictions outlined in its Declaration of Trust as well as external existing debt covenants, (ii) to allow for the implementation of its acquisition strategy and hotel property refurbishment program, and (iii) to build long-term unitholder value. Issuances of equity and debt are approved by the Board of Trustees (the "Board") through their review and approval of the REIT's strategic plan and annual budget plan, along with changes to the approved plans periodically throughout each year.

At June 30, 2010, InnVest's primary contractual obligations consisted of long-term mortgage obligations and convertible debentures. InnVest is not permitted to exceed certain financial leverage amounts under the terms of the Declaration of Trust. The REIT is permitted to hold indebtedness excluding convertible debentures up to a level of 50% of gross asset value. Further, the REIT is permitted to have indebtedness and convertible debentures up to a level of 60% of gross asset value. The Declaration of Trust also governs that individual property mortgages, or mortgages on a pool of properties, cannot exceed 75% of the fair value of the underlying property. InnVest calculates indebtedness in accordance with GAAP excluding non-interest bearing indebtedness, trade accounts payable, and any future income tax liability. InnVest calculates gross asset value as the total book value of assets on the REIT's balance sheet, plus accumulated depreciation and amortization, less future income tax liabilities.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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11. Capital Management (continued)

At June 30, 2010, the REIT's leverage excluding and including convertible debentures was 44.8% and 55.8%, respectively, calculated as follows:

	June 30, 2010		December 31, 2009		
Total assets per consolidated balance sheet	\$	1,904,244	\$	1,950,209	
Accumulated depreciation and amortization		380,166		345,098	
Future income tax liability		(185,869)		(186,430)	
Future income tax liability not included in assets		15,868		16,114	
Gross asset value	\$	2,114,409	\$	2,124,991	
Book value of mortgages and other indebtedness (1)	\$	946,290	44.8%	\$ 958,636	45.1%
Convertible debentures (2)		233,680	11.0%	240,744	11.3%
	\$	1,179,970	55.8%	\$ 1,199,380	56.4%

(1) Adjusted to eliminate financing issuance costs and include long-term debt related to assets held for sale.

(2) Adjusted to face value.

The REIT's Declaration of Trust also includes guidelines that limit capital expended to, among other items, the following:

- Direct and indirect investments in real property on which hotels are situated and the hotel business conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
- Temporary investments held in cash, deposits with a Canadian Chartered bank or trust company, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank, short-term commercial paper, notes, bonds of other debt securities of a Canadian entity having a rating of at least R-1 (Mid) by Dominion Bond Rating Service or A-1 (Mid) by Standard & Poor's Corporation maturing prior to one year from the date of issue; and
- Investments in mortgages or mortgage bonds, where the related security is a first mortgage on income producing real property which otherwise complies with (a) above and is subject to certain leverage limits and debt service coverage. The aggregate value of such investments shall not exceed 20% of the unitholders' equity.

The REIT is in compliance with these guidelines.

The REIT is also subject to certain restrictions on the issuance of equity as discussed in Note 12. The REIT can issue, on a cumulative basis, a total of approximately \$143,000 in equity annually in each of 2008, 2009 and 2010 and maintain its relief from taxation to the end of 2010. The REIT issued \$8,592 in equity during the six months ended June 30, 2010 (June 30, 2009 - \$1,615).

The REIT maintains an operating line of \$40,000 with a Canadian chartered bank with the following covenants in addition to the leverage limits under the Declaration of Trust:

- Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense of not less than 2.0 times (actual being 2.1 times at June 30, 2010 and 2.2 times at December 31, 2009);
- Trailing 12 months consolidated EBITDA to consolidated debt service of not less than 1.5 times (actual being 1.6 times at June 30, 2010 and 1.9 times at December 31, 2009); and
- Unitholders' Equity of not less than \$300,000 (actual being \$467,642 at June 30, 2010 and \$506,989 at December 31, 2009).

InnVest Real Estate Investment Trust

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12. Income Taxes and Future Income Tax Liability

InnVest currently qualifies as a Mutual Fund Trust for income tax purposes. Under the Canadian income tax rules applicable to specified investment flow-through ("SIFT") trusts, most publicly traded income funds will be taxed on their income commencing in 2011 in a similar manner to Canadian public corporations. In order to not be subject to tax under these SIFT rules, InnVest must qualify continuously as a real estate investment trust for Canadian income tax purposes (a "Qualifying REIT") from the beginning of 2011 onwards. If InnVest does not become a Qualifying REIT by then, the level of cash distributions to unitholders may be adversely affected.

InnVest is pursuing a reorganization in order to become a Qualifying REIT. The reorganization, which will occur under a plan of arrangement (the "Arrangement"), was approved by InnVest's unitholders at its annual and special meeting held June 16, 2010. On June 30, 2010, InnVest applied for approval from the Ontario Superior Court of Justice to proceed with the plan of arrangement. Court approval was received July 22, 2010.

Under the reorganization, InnVest will transfer all of its directly and indirectly held operating assets to a newly formed unit trust (InnVest Operations Trust, or "IOT") . IOT (through its subsidiaries) will hold the operating assets, earn revenues from hotel customers and pay rent to InnVest (the owner of the hotels). Each InnVest unitholder will receive one unit of IOT for each InnVest unit held. Thereafter, each issued and outstanding InnVest unit will trade together with a unit of IOT on a "stapled" basis unless the unitholders of InnVest vote in favour of an uncoupling of the stapled units or the REIT's trustees approve an event of bankruptcy or insolvency of InnVest, IOT and/or their respective subsidiaries.

The completion of the proposed reorganization remains subject to certain conditions. These conditions may not be satisfied, or may not be satisfied on terms satisfactory to InnVest, in which case the proposed Arrangement could be modified, restructured or terminated. In addition, the Trustees may, in their sole discretion, decide not to proceed with the Arrangement.

13. Financial Instruments

Risk Management

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

Interest Rate Risk

The time period over which management is spreading debt maturities implies an average term to maturity of approximately three years. This strategy reduces the REIT's exposure to re-pricing risk resulting from short-term interest rate fluctuations in any one year. Management is of the view that such a strategy will provide the most effective interest rate risk management for debt.

The REIT's floating rate debt balance is monitored by management to minimize the REIT's exposure to interest rate fluctuations. As at June 30, 2010, the REIT's floating rate debt balance of \$90,325 (December 31, 2009 - \$103,117) is approximately 9.6% (December 2009 – 10.9%) of total long-term debt.

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13. Financial Instruments (continued)

Risk Management (continued)

Credit Risk

Credit risk relates to the possibility that hotel guests, either individual or corporate, do not pay the amounts owed to the REIT. The REIT mitigates this risk by limiting its exposure to customers allowed to pay by invoice after check out ("direct bill"). Accounts receivable as at June 30, 2010 are \$27,826 (December 31, 2009 - \$22,591). InnVest reviews accounts receivable and the allowance for doubtful accounts is adjusted for any balances which are determined by management to be uncollectable. This provision adjustment is expensed in the hotel operating income. The allowance as at June 30, 2010 is \$438 or 1.6% (December 31, 2009 - \$505 or 2.3%) of total receivables. The bad debt expense included in hotel expenses for the six months ended June 30, 2010 is \$4 (June 30, 2009 - \$132 was credited in the operating income, due to amounts provided for which were subsequently collected). Accounts receivable amounts outstanding for over 90 days, which have not been provided for, total \$8 at June 30, 2010 (December 31, 2009 - \$106).

Mortgages receivable are secured by mortgages on the assets sold.

Liquidity Risk

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to the REIT to fund its growth and capital maintenance programs and refinance its obligations as they arise. There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT or on any terms at all. There is also a risk that bank lenders will not refinance the operating and bridge loan facilities on terms and conditions acceptable to the REIT or on any terms at all.

Estimated maturities of the REIT's financial liabilities are:

	Remainder of 2010	2011	2012	2013	2014	2015 and Thereafter	Contractual Cash flows (2)
Mortgage payable - principal (1)	\$ 107,022	\$ 74,446	\$ 200,753	\$ 171,549	\$ 296,396	\$ 90,124	\$ 940,290
Mortgage payable - interest (3)	25,838	46,437	42,418	22,640	10,751	5,115	153,199
Bridge loan - principal	-	6,000	-	-	-	-	6,000
Bridge loan - interest	113	38	-	-	-	-	151
Convertible debentures - principal	-	45,764	-	74,980	70,000	42,936	233,680
Convertible debentures - interest	7,176	12,207	11,492	9,243	6,993	5,063	52,174
Total (4)	\$ 140,149	\$ 184,892	\$ 254,663	\$ 278,412	\$ 384,140	\$ 143,238	\$ 1,385,494

(1) Principal includes regular amortization and repayments.

(2) Contractual cash flows include principal and interest payments and ignore extension options available to the REIT.

(3) Interest amounts for floating rate debt is based on interest rates prevailing at June 30, 2010.

(4) Current liabilities expected to be satisfied in the normal course of business are not included in the table above.

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13. Financial Instruments (continued)

Fair Values

The fair values of the REIT's financial assets and liabilities, representing net working capital, approximate their recorded values at June 30, 2010 and December 31, 2009 due to their short-term nature.

The fair value of the REIT's long-term debt is less than the carrying value by approximately \$27,157 at June 30, 2010 (December 31, 2009 - \$33,843) due to changes in interest rates since the dates on which the individual mortgages were arranged. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms and conditions.

The fair value of the REIT's convertible debentures is greater than the carrying value by approximately \$1,223 at June 30, 2010 (December 31, 2009 - \$4,115 less than the carrying value). The fair value of convertible debentures has been estimated based on the market rates for convertible debentures, as at June 30, 2010 and December 31, 2009.

The fair value hierarchy of financial instruments measured at fair value on the balance sheet is as follows:

	June 30, 2010		December 31, 2009	
Financial Assets:	Level 1		Level 1	
Cash and restricted cash	\$	78,607	\$	104,869

The REIT has no Level 2, nor Level 3 inputs.

Letters of Credit

As at June 30, 2010, the REIT has letters of credit totalling \$3,603 (December 31, 2009 - \$3,603) held on behalf of security deposits for various utility companies and liquor licences, and additional security for the pension liabilities.

14. 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. Per the Declaration of Trust, 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.

	Units	Amount
Balance at December 31, 2009	87,498,354	\$ 815,190
Units issued under distribution reinvestment plan	215,561	1,303
Units issued on conversion of debentures	1,239,296	7,064
Units issued for vested executive compensation plan	22,215	225
Balance at June 30, 2010	88,975,426	\$ 823,782
Balance at December 31, 2008	74,412,317	\$ 768,034
Units issued under distribution reinvestment plan	378,000	1,349
Units repurchased pursuant to normal course issuer bid	(336,549)	(3,467)
Units issued on conversion of debentures	1,342	20
Units issued for vested executive compensation plan	19,052	170
Units issued under trustee compensation plan	23,293	76
Balance at June 30, 2009	74,497,455	\$ 766,182

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14. Unitholders' Equity (continued)

Pursuant to the REIT's normal course issuer bid (the "Bid"), the REIT purchased 13,268 units at an average price of \$5.91 per unit. These units were transferred to the trustees of the REIT in satisfaction of a portion of their annual retainer fee. The REIT recognized \$ nil contributed surplus as these units were not cancelled. The Bid will terminate on November 15, 2010.

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 had set aside 100,000 units in reserve for this purpose and during the second quarter of 2010 this reserve was increased by 250,000 units. The balance in this reserve account at June 30, 2010 is 250,375 units. Under the Trustee Compensation Plan, 13,268 units were awarded and purchased under the Bid during the six months ended June 30, 2010 (June 30, 2009 – 23,293 units were issued from the reserve).

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. The balance in this reserve account at June 30, 2010 is 745,766 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 following table summarizes the status of the executive compensation plan at June 30, 2010, excluding granted units which have fully vested:

	Unvested Executive units	Units Accumulated from Distributions	Total Units
2007 - granted	15,000	8,323	23,323
2008 - granted	20,455	9,132	29,587
2009 - granted	25,500	6,262	31,762
2010 - granted	28,500	1,093	29,593
Units vested 2010	(7,500)	(3,921)	(11,421)
	81,955	20,889	102,844

The Board of Trustees approved the granting of 28,500 units during the six months ended June 30, 2010. All granted units vest equally on the third and fourth anniversaries 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.

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15. Per Unit Information

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	Weighted Average Units		Weighted Average Units	
			(Restated, Note 21)	
Income (loss) from continuing operations - basic	\$ 1,258	88,430,620	\$ (3,553)	74,451,452
Dilutive effect of executive compensation plan	-	101,860	-	84,010
Income (loss) from continuing operations - diluted	\$ 1,258	88,532,480	\$ (3,553)	74,535,462

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Weighted Average Units		Weighted Average Units	
			(Restated, Note 21)	
Loss from continuing operations - basic	\$ (25,258)	88,006,418	\$ (18,869)	74,445,556
Dilutive effect of executive compensation plan	-	98,125	-	81,821
Loss from continuing operations - diluted	\$ (25,258)	88,104,543	\$ (18,869)	74,527,377

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	Weighted Average Units		Weighted Average Units	
			(Restated, Note 21)	
Net income (loss) - basic	\$ 1,303	88,430,620	\$ (4,007)	74,451,452
Dilutive effect of executive compensation plan	-	101,860	-	84,010
Net income (loss) - diluted	\$ 1,303	88,532,480	\$ (4,007)	74,535,462

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	Weighted Average Units		Weighted Average Units	
			(Restated, Note 21)	
Net loss - basic	\$ (25,182)	88,006,418	\$ (19,427)	74,445,556
Dilutive effect of executive compensation plan	-	98,125	-	81,821
Net loss - diluted	\$ (25,182)	88,104,543	\$ (19,427)	74,527,377

The impact of the debentures has been excluded from the per unit calculations above because the conversions would not be dilutive.

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16. Distributions to Unitholders

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

Distributable income is a measure of cash flow that is not defined under Canadian GAAP and, accordingly, may not be comparable to similar measures used by other issuers.

Distributable income is defined as net income in accordance with Canadian GAAP, 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 3% to 5% of hotel revenues, for the reserve for the replacement of furniture, fixtures and equipment and capital improvements, the accretion on convertible debentures that is included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net income (loss)	\$ 1,303	\$ (4,007)	\$ (25,182)	\$ (19,427)
Add (deduct)				
Depreciation and amortization	23,078	22,739	46,318	45,468
Future income tax recovery	(128)	(850)	(561)	(7,781)
Non-cash portion of mortgage interest expense	412	386	894	810
Non-cash portion of convertible debentures interest and accretion	1,096	743	1,711	1,527
Reserve for replacement of furniture, fixtures, equipment, capital improvements	(6,710)	(6,563)	(11,864)	(11,990)
Writedown of hotel properties	-	5,488	-	5,488
Writedown of assets held for sale	-	499	-	499
Non-cash executive and trustee compensation	27	86	83	172
Deferred land lease expense and retail lease income, net	24	2	49	4
	17,799	22,530	36,630	34,197
Distributable income	\$ 19,102	\$ 18,523	\$ 11,448	\$ 14,770
Distributions paid or payable	11,090	13,962	22,049	27,918
Distributions (less than) in excess of distributable income	\$ (8,012)	\$ (4,561)	\$ 10,601	\$ 13,148

17. Management Agreements

Westmont Hospitality Canada Limited

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 Canada Limited ("Westmont"). Westmont is considered a related party to the REIT as a result of its ability to exercise significant influence through the Agreements. Westmont manages all but 15 of the REIT's hotels.

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17. Management Agreements (continued)

The current term expires July 25, 2017 and the Agreements include an additional renewal term for a five-year extension, subject to the consent of Westmont and approval of the REIT. 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 periods presented.

Accounting fees are calculated based on a fixed charge per room which increases by the Consumer Price Index change annually. For assets sold which are managed by Westmont, the REIT pays a termination fee equal to the fees paid based on trailing 12 months revenues. The REIT also paid termination fees of \$96 during the six months ended June 30, 2010 (June 30, 2009 - \$63).

In addition to the base management fee and incentive fee, Westmont is entitled to 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.

Also, for certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of hotel operating income, after the reserve for replacement of furniture, fixtures and equipment and capital improvements, subject to an annual minimum fee.

During the three and six months ended June 30, 2010 and 2009, the fees charged to the REIT pursuant to the Agreements were as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30 2010	Six Months Ended June 30, 2009
Fees from continuing operations:				
Management fees	\$ 3,037	\$ 2,950	\$ 5,399	\$ 5,464
Asset management fees (included in management fee expense)	507	507	1,015	1,012
Accounting services (included in hotel operating expenses)	590	558	1,180	1,115
Administrative services (included in corporate and administrative expenses)	113	112	226	229
Project management and general contractor services (capitalized to hotel properties)	243	171	392	381
Fees from discontinued operations	110	125	123	211
	\$ 4,600	\$ 4,423	\$ 8,335	\$ 8,412

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT were \$217 for the six months ended June 30, 2010 (June 30, 2009 - \$187). Included in accounts payable and accrued liabilities are amounts owed to Westmont at June 30, 2010 totalling \$1,589 (December 31, 2009 - \$1,193).

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17. Management Agreements (continued)

Other Management Agreements

Hilton Canada Co. ("Hilton") manages two Hilton hotel properties for the REIT. The hotel management agreements provide for the payment of an annual management fee to Hilton in an amount equal to 3.0% of gross revenues until the agreements mature on December 31, 2026. For the three and six months ended June 30, 2010, total management fees paid to Hilton were \$315 and \$539, respectively (June 30, 2009 - \$308 and \$520, respectively).

Delta Hotels Limited ("Delta") manages 10 Delta hotel properties for the REIT. The hotel management agreements provide for the payment of an annual management fee to Delta in an amount of 2% to 3% of total revenues from the hotel, plus 0.5% of total revenues from the hotel if the hotel's annual gross operating profit is greater than the budgeted gross operating profit. The agreements mature from December 31, 2010 to December 31, 2047. For the three and six months ended June 30, 2010, total management fees paid to Delta were \$1,231 and \$2,133, respectively (June 30, 2009 - \$1,246 and \$2,262, respectively).

Fairmont Hotels and Resorts ("Fairmont") manages three hotel properties for the REIT. The hotel management agreements provide for the payment of a base management fee and an incentive management fee to Fairmont. The base management fee is equal to 3% of total hotel revenues. The incentive management fees are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. The agreements mature from December 31, 2023 to December 31, 2047. For the three and six months ended June 30, 2010, total base management and incentive management fees paid for these properties were \$951 and \$1,604, respectively (June 30, 2009 - \$878 and \$1,809, respectively).

Fairmont may also receive a portfolio incentive fee for which two Fairmont properties and four Delta properties participate. The portfolio incentive fees are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. There were no portfolio incentive fees for the three and six months ended June 30, 2010 and 2009.

18. Segmented Financial Information

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

	Western	Ontario	Quebec	Atlantic	Total
Three months ended June 30, 2010					
Hotel revenues	\$ 41,171	\$ 60,822	\$ 36,715	\$ 24,255	\$ 162,963
Hotel expenses	28,821	44,986	27,488	18,039	119,334
Hotel operating income	\$ 12,350	\$ 15,836	\$ 9,227	\$ 6,216	\$ 43,629
Three months ended June 30, 2009 (Restated, Note 21)					
Hotel revenues	\$ 39,949	\$ 59,017	\$ 34,607	\$ 25,508	\$ 159,081
Hotel expenses	28,029	44,366	26,671	18,582	117,648
Hotel operating income	\$ 11,920	\$ 14,651	\$ 7,936	\$ 6,926	\$ 41,433

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18. Segmented Financial Information (continued)

	Western	Ontario	Quebec	Atlantic	Total
Six months ended June 30, 2010					
Hotel revenues	\$ 74,776	\$ 108,249	\$ 64,212	\$ 40,915	\$ 288,152
Hotel expenses	55,386	87,311	52,479	33,821	228,997
Hotel operating income	\$ 19,390	\$ 20,938	\$ 11,733	\$ 7,094	\$ 59,155
Six months ended June 30, 2009 (Restated, Note 21)					
Hotel revenues	\$ 76,475	\$ 109,342	\$ 61,987	\$ 42,151	\$ 289,955
Hotel expenses	56,258	87,478	51,818	34,655	230,209
Hotel operating income	\$ 20,217	\$ 21,864	\$ 10,169	\$ 7,496	\$ 59,746
Capital expenditures on hotel properties,					
Three months ended June 30, 2010					
	\$ 843	\$ 1,991	\$ 1,487	\$ 3,473	\$ 7,794
Three months ended June 30, 2009					
	\$ 3,659	\$ 2,026	\$ 795	\$ 832	\$ 7,312
Capital expenditures on hotel properties,					
Six months ended June 30, 2010					
	\$ 2,452	\$ 4,671	\$ 4,790	\$ 1,872	\$ 13,785
Six months ended June 30, 2009 (Restated, Note 21)					
	\$ 5,367	\$ 4,216	\$ 2,359	\$ 1,338	\$ 13,280
Hotel properties					
June 30, 2010					
	\$ 487,751	\$ 604,108	\$ 395,706	\$ 225,432	\$ 1,712,997
December 31, 2009 (Restated, Note 21)					
	\$ 497,252	\$ 616,306	\$ 398,330	\$ 228,754	\$ 1,740,642

19. Total Revenues

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (Restated, Note 21)	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009 (Restated, Note 21)
Hotel revenues	\$ 162,963	\$ 159,081	\$ 288,152	\$ 289,955
Other business income	2,989	2,714	5,818	5,443
	\$ 165,952	\$ 161,795	\$ 293,970	\$ 295,398

20. Other Business Income

Other business income includes franchise business income, which is InnVest's 50% share of CHC's operations, and the income from the other real estate properties.

	Franchise Business	Retail/ Office	Retirement Residence	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009
Revenues	\$ 2,105	\$ 637	\$ 247	\$ 2,989	\$ 2,714
Expenses	1,425	259	199	1,883	1,423
Other business income, net	\$ 680	\$ 378	\$ 48	\$ 1,106	\$ 1,291

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20. Other Business Income (continued)

	Franchise Business	Retail/ Office	Retirement Residence	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues	\$ 3,880	\$ 1,436	\$ 502	\$ 5,818	\$ 5,443
Expenses	2,725	611	392	3,728	3,240
Other business income, net	\$ 1,155	\$ 825	\$ 110	\$ 2,090	\$ 2,203

21. Asset Held for Sale and Discontinued Operations

The asset held for sale is an Ontario property which was expropriated subsequent to June 30, 2010. The operating results of this hotel are presented as discontinued operations for the three and six months ended June 30, 2010 and 2009. The three and six months ended June 30, 2009 also includes two Ontario hotels sold subsequently in 2009.

Discontinued operations for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Hotel revenues	\$ 297	\$ 752	\$ 553	\$ 1,929
Hotel expenses				
Operating expenses	192	464	358	1,302
Property taxes, rent and insurance	50	195	100	483
Management fees	10	25	19	65
	252	684	477	1,850
Hotel operating income	45	68	76	79
Interest on mortgages	-	23	-	85
Depreciation and amortization	-	-	-	53
	-	23	-	138
Income (loss) from discontinued operations	45	45	76	(59)
Writedown of asset held for sale	-	(499)	-	(499)
Net income (loss) from discontinued operations	\$ 45	\$ (454)	\$ 76	\$ (558)

The discontinued operations for the three and six months ended June 30, 2009 have been restated due to the reclassification of three hotels. One Ontario hotel has become an operating lease hotel. Another Ontario hotel and one Quebec hotel were reclassified from Assets held for sale as they no longer meet the criteria under CICA Section 3475 – *Disposal of Long-lived Assets and Discontinued Operations*. Their realizable value of \$23,097 has been reclassified to Hotel properties effective June 30, 2010 and will begin to be amortized starting in the third quarter, as these assets are not expected to sell.

The REIT repaid debt totaling \$4,201 relating to the Ontario hotel which is now an operating lease hotel. The balance of Long-term liabilities related to assets held for sale, for these assets, was reclassified in the amount of \$8,184 to Long-term debt and a \$448 credit to Other long-term obligations.

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21. Asset Held for Sale and Discontinued Operations (continued)

The following table summarizes the effect on the consolidated statements of net income (loss) for the three and six months ended June 30, 2010 and 2009, due to the reclassification:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Hotel revenues	\$ 2,968	\$ 3,103	\$ 5,881	\$ 6,276
Hotel expenses				
Operating expenses	2,085	2,381	4,484	4,829
Property taxes, rent and insurance	651	770	1,349	1,491
Management fees	100	105	199	212
	2,836	3,256	6,032	6,532
Hotel operating income (loss)	132	(153)	(151)	(256)
Interest on mortgages	141	113	317	228
Depreciation and amortization	-	-	-	477
Write down of hotel properties	-	5,488	-	5,488
	141	5,601	317	6,193
Net loss from continuing operations	\$ (9)	\$ (5,754)	\$ (468)	\$ (6,449)

22. Subsequent Event

On July 22, 2010, the REIT announced a public offering, subject to regulatory approval, on a bought deal basis, of \$75,000 aggregate principal amount of 6% convertible unsecured subordinated debentures due September 30, 2017 (the "Debentures"). The Debentures are convertible, at the option of the holder, into InnVest units at \$8.00 per unit. The offering is expected to close in August 2010.