



InnVest

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For Immediate Release

INNVEST REIT REPORTS FOURTH QUARTER RESULTS

Toronto, Canada (March 12, 2010) – InnVest Real Estate Investment Trust (“InnVest” or the “Trust”) (TSX: INN.UN) today announced financial results for the three and twelve months ended December 31, 2009. 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.

“Our operating performance in 2009 reflected the broader economic environment, with declining demand and increasingly competitive pricing resulting in lower revenues and earnings. While we are hopeful that the worst is behind us, we continue to manage our portfolio conservatively and with continued emphasis on cost controls,” commented Kenneth Gibson, InnVest’s President and Chief Executive Officer. “These challenging times demonstrate the fundamental strength of our business model which is focused on owning a diversified portfolio of quality hotels in convenient locations.”

Fourth Quarter Highlights

- Issued \$50.0 million of equity at \$3.95 per unit and \$50.0 million of 6.75% convertible debentures due in 2016;
- Completed the refinancing of a \$177.0 million mortgage originally scheduled to mature in July 2010;
- Revenue per available room (“RevPAR”) on a same hotel basis declined 10.8%;
- Hotel operating income (“HOI”) was down 24.3% to \$28.0 million. HOI margins declined to 19.8% compared to 23.4% in 2008;
- Recognized a non-cash \$24.9 million impairment provision for eight hotel properties, triggered by the Trust’s long-term holding expectation for these properties;
- Net loss for the quarter totalled \$24.8 million compared to \$28.3 million; and
- Distributable income and funds from operations (“FFO”) were \$5.9 million and \$11.5 million, respectively.

FINANCIAL HIGHLIGHTS

(In thousands of dollars except average daily rate, revenue per available room and per unit amounts)						
	Three months ended December 31			Year ended December 31		
	2009	2008	+/-	2009	2008	+/-
Occupancy	54.2%	58.6%	(4.4)%	59.1%	63.9%	(4.9)%
Average daily rate ("ADR")	\$114.35	\$118.49	(\$4.14)	\$116.89	\$121.08	(\$4.19)
Revenue Per Available Room ("RevPAR")	\$61.95	\$69.45	(\$7.50)	\$69.05	\$77.42	(\$8.37)
Hotel revenues	\$141,668	\$158,318	(\$16,650)	\$594,481	\$660,022	(\$65,541)
Hotel operating income ⁽¹⁾	\$28,005	\$36,977	(\$8,972)	\$141,928	\$179,621	(\$37,693)
Net loss and comprehensive loss	(\$24,802)	(\$28,332)	\$3,530	(\$30,923)	(\$3,377)	(\$27,546)
Add / (deduct)						
Depreciation and amortization	22,966	22,793	173	91,195	88,209	2,986
Future income tax recovery	(16,162)	(10,010)	(6,152)	(24,547)	(14,526)	(10,021)
Non-cash executive and trustee compensation	48	154	(106)	268	619	(351)
Net writedown on and sale of assets held for sale	4,552	29,646	(25,094)	11,789	32,310	(20,521)
Writedown of hotel properties	24,926	4,939	19,987	24,926	4,939	19,987
Funds from operations ⁽¹⁾⁽²⁾	\$11,528	\$19,190	(\$7,662)	\$72,708	\$108,174	(\$35,466)
Funds from operations per unit						
- basic	\$0.135	\$0.258	(\$0.123)	\$0.941	\$1.465	(\$0.524)
- diluted	\$0.131	\$0.258	(\$0.127)	\$0.939	\$1.402	(\$0.463)
Amortization of deferred financing costs	-	25	(25)	23	1,398	(1,375)
Non-cash portion of mortgage interest expense	458	460	(2)	1,680	1,509	171
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(5,982)	(7,030)	1,048	(25,085)	(28,352)	3,267
Non-cash portion of convertible debentures interest and accretion	(121)	690	(811)	2,142	2,784	(642)
Deferred land lease expense and retail lease income, net	26	5	21	56	27	29
Distributable income ⁽¹⁾	\$5,909	\$13,340	(\$7,431)	\$51,524	\$85,540	(\$34,016)
Distributable income per unit ⁽³⁾						
- basic	\$0.069	\$0.179	(\$0.110)	\$0.667	\$1.159	(\$0.492)
- diluted	\$0.069	\$0.179	(\$0.110)	\$0.666	\$1.115	(\$0.449)
Distributions per unit ⁽⁴⁾	\$0.1251	\$0.2188	(\$0.094)	\$0.6668	\$1.0625	(\$0.396)

⁽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 the hotels that have been classified as discontinued operations and hotels that have not been included in operating results for the full periods presented.

	Three months ended December 31, 2009	Variance to 2008	Year ended December 31, 2009	Variance to 2008
Occupancy				
Ontario	51.9%	(4.1 pts)	56.5%	(5.2 pts)
Quebec	55.0%	(5.2 pts)	59.9%	(5.1 pts)
Atlantic	53.3%	(3.2 pts)	60.9%	(3.7 pts)
Western	58.5%	(5.6 pts)	62.3%	(5.0 pts)
Total	54.1%	(4.5 pts)	59.1%	(4.9 pts)
ADR				
Ontario	\$107.25	(4.0%)	\$109.33	(3.2%)
Quebec	\$111.94	(3.6%)	\$113.47	(4.8%)
Atlantic	\$108.69	(2.9%)	\$115.92	(2.0%)
Western	\$135.56	(2.1%)	\$137.36	(2.9%)
Total	\$114.53	(3.3%)	\$117.13	(3.3%)
RevPAR				
Ontario	\$55.64	(11.0%)	\$61.77	(11.4%)
Quebec	\$61.53	(12.0%)	\$68.03	(12.2%)
Atlantic	\$57.93	(8.4%)	\$70.57	(7.6%)
Western	\$79.36	(10.6%)	\$85.62	(10.1%)
Total	\$61.95	(10.8%)	\$69.21	(10.7%)

FINANCIAL REVIEW (In thousands of dollars, except per unit amounts, unless otherwise stated)

Three months ended December 31, 2009

Fourth quarter results continued to be impacted by ongoing softness in the broader economic environment. The hospitality industry is highly correlated to the general economy given its impact on discretionary travel demand. For the three months ended December 31, 2009, hotel revenues decreased by \$16.7 million, or 10.5%, to \$141.7 million.

Fourth quarter RevPAR decreased 10.8% based on a 3.3% decrease in ADR and a 4.5 point decline in overall occupancy. RevPAR trends were generally consistent across all service categories and geographical regions.

Consistent with RevPAR declines experienced during the quarter, overall room revenues for the three months ended December 31, 2009 decreased \$11.2 million, or 9.7%, to \$104.2 million. All regions experienced a combination of occupancy and rate declines. Average daily rate discounting continued in most markets as competitive efforts to attract declining demand persist. We expect this trend to continue until sentiment regarding the economy improves.

For the three months ended December 31, 2009, non-room revenues totalled \$37.4 million, down \$5.5 million or 12.8% compared to the prior year. Non-room revenues are directly impacted by overall occupancy since lower occupancy results in the reduced use of ancillary services offered at our hotels.

In periods of declining occupancies, the Trust is focused on managing all costs to minimize the overall impact on profitability without impacting the service levels offered to guests. However, many property

level expenses, including property taxes, leasehold payments and insurance, are relatively fixed and do not necessarily change in accordance with overall demand levels.

Hotel expenses for the three months ended December 31, 2009 declined \$7.7 million or 6.3% when compared to 2008. The decrease primarily reflects reduced occupancies as well as active steps taken by the Trust to manage costs throughout the portfolio in light of the softer economic environment. These initiatives, most of which were implemented in 2008, include hiring freezes and salary freezes throughout most of the portfolio and at the Trust's corporate offices, as well as seeking to maximize value from vendors through pricing concessions. These initiatives should continue to benefit future periods.

Fourth quarter hotel operating income margins declined to 19.8% compared to 23.4% in the prior year reflecting weak RevPAR somewhat offset by continued efficiency improvements across the portfolio. For the three months ended December 31, 2009, the Trust generated hotel operating income of \$28.0 million, down \$9.0 million or 24.3% as compared to the prior period. Typically, declining revenues will result in a decline in profitability given the considerable amount of fixed operating costs.

Other expenses, net of other income, for the three months ended December 31, 2009 totalled \$64.1 million compared to \$44.8 million in the prior period. Other expenses in 2009 include a non-cash \$24.9 million impairment provision for hotel properties following an extensive market-by-market review of future operating expectations across the entire portfolio triggered by the Trust's long-term holding expectation for certain assets. The 2009 provision relates to eight non-strategic assets and/or assets in tertiary markets impacted by new supply in recent years. InnVest does not intend to hold these assets for a significant portion of their remaining useful life and as such required a writedown to their net realizable amount. These assets do not meet the criteria to be classified as assets held for sale at December 31, 2009. In 2008, a non-cash \$4.9 million impairment provision was taken, triggered by then current negative economic indicators and their expected impact on future cash flows. The 2008 provision related to two owned assets and a leasehold hotel. Fourth quarter results in 2009 also reflect a non-cash adjustment to the accretion calculation for convertible debentures.

InnVest realized a loss from continuing operations of \$20.0 million or \$0.234 per unit basic and diluted compared to income from continuing operations of \$2.2 million or \$0.030 per unit basic and diluted in the prior period reflecting the lower hotel operating income achieved during the quarter and the higher impairment provision taken.

For the fourth quarter of 2009, discontinued operations generated net losses of \$277 compared to \$913 in the prior period. The Trust recognized a non-cash impairment charge of \$4.6 million during the fourth quarter based on updated expectations of sale proceeds. The prior period included a non-cash impairment charge of \$29.6 million relating to five assets reclassified as held for sale in the first quarter of 2009, one of which was sold during the year. At December 31, 2009, four hotels (699 rooms) were classified as held for sale.

InnVest generated a fourth quarter net loss of \$24.8 million, or \$0.290 per unit basic and diluted compared to a net loss of \$28.3 million, or \$0.381 per unit basic and diluted in the prior year.

For the three months ended December 31, 2009, InnVest generated FFO of \$11.5 million (\$0.131 per unit diluted) compared to \$19.2 million in the prior period (\$0.258 per unit diluted). Distributable income was \$5.9 million (\$0.069 per unit diluted) compared to \$13.3 million in the prior year (\$0.179 per unit diluted). The declines are primarily attributable to the \$9.0 million reduction in hotel operating income for the fourth quarter combined with the higher number of units outstanding following an equity offering in October 2009.

Distributions declared during the fourth quarter of 2009 totalled \$10.9 million compared to \$16.3 million in the prior period. The Trust reduced its monthly distribution to \$0.0625 per unit in November 2008 (from \$0.09375 per unit), and announced a further reduction to \$0.0417 per unit monthly beginning in September 2009. InnVest's payout ratio for the year ended December 31, 2009 was 99.6%.

Year ended December 31, 2009

For the year ended December 31, 2009, hotel revenues decreased by \$65.5 million, or 9.9%, to \$594.5 million. Operating results were adversely impacted by a weak economic environment throughout the year.

RevPAR decreased 10.7% based on a 3.3% decrease in ADR and a 4.9 point decline in overall occupancy. RevPAR trends were generally consistent across all service categories and brands.

Hotel expenses for the year ended December 31, 2009 declined \$27.8 million or 5.8% when compared to 2008. The decrease reflects reduced occupancies as well as active steps taken by the Trust to manage costs throughout the portfolio in light of the softer economic environment.

Hotel operating income margins declined 330 basis points to 23.9% in 2009 reflecting weak RevPAR somewhat offset by continued efficiency improvements and other savings generated across the portfolio. For the year ended December 31, 2009, the Trust generated HOI of \$141.9 million, down \$37.7 million or 21.0% as compared to the prior year. Typically, declining revenues, or revenue growth below inflation, will result in a disproportionate decline in profitability given the considerable amount of fixed operating costs.

Other income and expenses for the year ended December 31, 2009 include a non-cash \$24.9 million impairment provision for hotel properties taken in the fourth quarter compared to a non-cash impairment provision of \$4.9 million in 2008.

InnVest realized a loss from continuing operations of \$17.9 million or a loss of \$0.231 per unit basic and diluted compared to income from continuing operations of \$30.6 million, or \$0.414 per unit basic and diluted in the prior year. Discontinued operations generated net losses of \$1.3 million compared to \$1.6 million in the prior period. Two hotels have been sold in 2009 for gross proceeds of \$7.4 million. During the year, the Trust recognized a non-cash impairment charge of \$11.8 million based on updated expectations of sale proceeds compared to a provision of \$32.3 million in 2008.

InnVest's net loss for the year ended December 31, 2009 was \$30.9 million, or \$0.400 per unit basic and diluted. This compares to a net loss of \$3.4 million, or \$0.046 per unit basic and diluted for the same period in 2008.

For the year ended December 31, 2009, InnVest generated FFO of \$72.7 million (\$0.939 per unit diluted) compared to \$108.2 million in the prior period (\$1.402 per unit diluted). InnVest generated distributable income of \$51.5 million (\$0.666 per unit diluted) compared to \$85.5 million in the prior year (\$1.115 per unit diluted). The reductions primarily reflects lower HOI generated during the period. Distributions declared in 2009 totalled \$51.3 million compared to \$78.5 million in the prior year.

BALANCE SHEET REVIEW

At December 31, 2009, InnVest had cash on hand totalling \$104.9 million, of which \$3.8 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.

At December 31, 2009, the Trust had a \$7.0 million bridge loan secured by a hotel which expired February 28, 2010. In the first quarter of 2010, this bridge loan was extended to March 1, 2011 and included a pay-down of \$1.0 million.

Fourth quarter activities included the refinancing of a \$177.0 million mortgage for a three year term at an interest rate of 7.5%. The mortgage, secured by 40 hotels, was originally scheduled to mature in July 2010.

At December 31, 2009, the Trust's leverage excluding and including convertible debentures was 45.1% and 56.4%, respectively. InnVest has mortgages payable of \$946.8 million with a weighted average term of 3.1 years and a weighted average interest cost of 5.9%. Approximately 10.9% of the Trust's mortgage debt is at floating rate.

For the year ended December 31, 2009, capital expenditures totalled \$25.2 million compared to the Trust's FF&E reserve of \$25.1 million.

INCOME TAX DEFERRAL PERCENTAGE

For 2009, 70.0% of unitholder distributions will not be taxable to unitholders (2008 – 44.0%).

QUALIFYING REIT PROCESS

InnVest is pursuing a reorganization in order to become a Qualifying REIT and not be subject to tax under the Canadian income tax rules applicable to "SIFT" trusts. The reorganization, which would occur under a plan of arrangement, would take effect only upon receiving approval from InnVest's trustees and unitholders, as well as all necessary regulatory approvals.

As currently contemplated, under the reorganization InnVest would transfer all of its directly and indirectly held operating assets to a newly-formed taxable entity ("New Entity"). The New Entity (through its subsidiaries) would hold the operating assets, earn revenues from hotel customers and pay rent to InnVest (the owner of the hotels).

Each InnVest unitholder would receive one unit of the New Entity for each InnVest unit held. Thereafter, each issued and outstanding InnVest unit would trade together with a unit of the New Entity on a "stapled" basis.

Before proceeding with the reorganization, unitholder approval will be sought at InnVest's annual and special meeting to be held June 16, 2010 in Toronto. Detailed information regarding the proposed reorganization will be included in the annual and special meeting materials.

OTHER CORPORATE DEVELOPMENTS

On December 30, 2009, the Trust closed its previously announced public offering of \$50.0 million aggregate principal amount of 6.75% convertible unsecured subordinated debentures due March 31, 2016. These debentures are convertible, at the option of the holder, into trust units of InnVest at a conversion price of \$5.70 per trust unit.

In November 2008, the Trust renewed its normal course issuer bid (“NCIB”) to repurchase trust units and implemented a NCIB to repurchase certain of its convertible debentures. The NCIBs expire on November 15, 2010.

On October 14, 2009, the Trust closed its previously announced equity offering of 12,658,500 units of the Trust at a price of \$3.95 per unit resulting in gross proceeds to the Trust of \$50.0 million.

OUTLOOK

Historically, the lodging industry performance has been highly correlated with the general economy given the discretionary nature of leisure and business travel. The Canadian and global economies are showing some early signs of improvement, however, expectations are that any recovery will be protracted. Until there is greater visibility as to an economic recovery, we remain cautious on the Trust’s near term operating outlook.

Having developed and implemented contingency plans throughout the portfolio, we continue to manage our portfolio aggressively to maximize the performance of each hotel. In addition, the Trust is continually seeking opportunities to recycle its capital efficiently and is actively pursuing the sale of certain underperforming non-core assets.

InnVest’s recent financial management initiatives have significantly improved the Trust’s balance sheet and liquidity position. We continue to be proactive in our capital management efforts, including efforts to secure an early renewal for 2011 debt maturities. Having addressed all debt maturities for the coming year and with considerable liquidity on hand, we are well-positioned to manage our business heading into 2010.

InnVest’s current portfolio is diversified by geography, customer and brand. This diversity, combined with our partnerships with experienced hotel operators, contributes to the resiliency of the portfolio and positions InnVest to effectively manage through the current economic environment.

FORWARD LOOKING STATEMENTS

Statements contained in this press release that are not historical facts are forward-looking statements which involve risk and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Among the key factors that could cause such differences are real estate investment risks, hotel industry risks and competition. These and other factors are discussed in InnVest’s 2008 annual information form which is available at www.sedar.com or www.innvestreit.com. InnVest disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities law.

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.

QUARTERLY CONFERENCE CALL

Management will host a conference call on Friday March 12, 2010 at 11:00 a.m. Eastern time to discuss the performance of InnVest. Investors are invited to access the call by dialing (416) 340-8018 or 1-866-223-7781. You will be required to identify yourself and the organization on whose behalf you are participating. A recording of this call will be made available March 12th beginning at 1:00 pm through to 11:59 p.m. on March 19th. To access the recording please call (416) 695-5800 and use the reservation number 8415677#.

For further information:

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InnVest Real Estate Investment Trust

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31, 2009

December 31, 2008

(Restated, Note 24)

ASSETS

Current Assets

Cash	\$	101,054	\$	18,143
Accounts receivable		22,409		27,319
Prepaid expenses and other assets		7,877		8,861
Assets held for sale (Note 24)		300		610

131,640 54,933

Restricted cash 3,815 3,013

Hotel properties (Note 3) 1,715,532 1,792,828

Other real estate properties (Note 4) 15,770 16,078

Licence contracts (Note 5) 16,537 17,853

Intangible and other assets (Note 6) 36,003 42,165

Assets held for sale (Note 24) 30,912 50,234

\$ 1,950,209 \$ 1,977,104

LIABILITIES

Current Liabilities

Bank indebtedness (Note 8)	\$	-	\$	9,000
Accounts payable and accrued liabilities		64,922		71,876
Acquisition related liabilities		2,034		2,561
Distributions payable		3,649		4,651
Current portion of long-term debt (Note 9)		21,252		10,763
Liabilities related to assets held for sale (Note 24)		882		1,157

92,739 100,008

Long-term debt (Note 9) 919,356 930,317

Other long-term obligations (Note 10) 6,896 7,139

Convertible debentures (Note 11) 225,918 180,170

Future income tax liability (Note 13) 186,430 210,977

Long-term liabilities related to assets held for sale (Note 24) 11,881 12,763

1,443,220 1,441,374

Commitments and contingencies (Note 16)

UNITHOLDERS' EQUITY 506,989 535,730

\$ 1,950,209 \$ 1,977,104

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

InnVest Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(in thousands of dollars, except per unit amounts)	Year Ended December 31, 2009	Year Ended December 31, 2008 (Restated, Note 24)
Total revenues (Note 22)	\$ 606,457	\$ 673,418
Hotel revenues	\$ 594,481	\$ 660,022
Hotel expenses		
Operating expenses (Note 20)	380,056	402,100
Property taxes, rent and insurance	49,894	52,052
Management fees (Note 20)	22,603	26,249
	452,553	480,401
Hotel operating income	141,928	179,621
Other (income) and expenses		
Interest on mortgages and other debt	55,478	57,382
Convertible debentures interest and accretion	13,598	14,269
Corporate and administrative (Note 20)	5,574	5,763
Capital tax	193	175
Other business income, net (Note 23)	(5,184)	(5,630)
Other income	(944)	(173)
Depreciation and amortization	90,688	86,852
Writedown of hotel properties (Note 3)	24,926	4,939
	184,329	163,577
(Loss) income from continuing operations before income tax recovery	(42,401)	16,044
Future income tax recovery (Note 13)	(24,547)	(14,526)
(Loss) income from continuing operations	(17,854)	30,570
Loss from discontinued operations (Note 24)	(1,280)	(1,637)
Net writedown of and gain on sale of assets held for sale (Note 24)	(11,789)	(32,310)
	(13,069)	(33,947)
Net loss and comprehensive loss	\$ (30,923)	\$ (3,377)
(Loss) income from continuing operations, per unit (Note 18)		
Basic and diluted	\$ (0.231)	\$ 0.414
Net loss per unit (Note 18)		
Basic and diluted	\$ (0.400)	\$ (0.046)
Loss from discontinued operations, per unit		
Basic and diluted	\$ (0.169)	\$ (0.460)

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)	Cumulative Net Income (Loss) and Comprehensive Income (Loss)	Cumulative Distributions	Deficit	Units in \$	Contributed Surplus	Convertible Debentures Holders' Conversion Option	Total
Balance December 31, 2007	\$ 137,923	\$ (299,691)	\$ (161,768)	\$ 757,375	\$ 417	\$ 8,642	\$ 604,666
CHANGES DURING THE YEAR							
Net loss and comprehensive loss	(3,377)	-	(3,377)	-	-	-	(3,377)
Distributions to unitholders (Note 19)	-	(78,473)	(78,473)	-	-	-	(78,473)
Distribution reinvestment plan units issued (Note 17)	-	-	-	13,234	-	-	13,234
Units repurchased pursuant to normal course issuer bid (Note 17)	-	-	-	(2,877)	1,938	-	(939)
Vested executive compensation	-	-	-	151	(151)	-	-
Executive and trustee compensation	-	-	-	151	468	-	619
Balance December 31, 2008	\$ 134,546	\$ (378,164)	\$ (243,618)	\$ 768,034	\$ 2,672	\$ 8,642	\$ 535,730
CHANGES DURING THE YEAR							
Net loss and comprehensive loss	(30,923)	-	(30,923)	-	-	-	(30,923)
Distributions to unitholders (Note 19)	-	(51,297)	(51,297)	-	-	-	(51,297)
Issue of new units (Note 17)	-	-	-	47,601	-	-	47,601
Issue of new debentures (Note 11)	-	-	-	-	-	4,000	4,000
Distribution reinvestment plan units issued (Note 17)	-	-	-	2,756	-	-	2,756
Units repurchased pursuant to normal course issuer bid (Note 17)	-	-	-	(3,467)	2,301	-	(1,166)
Conversion of debentures	-	-	-	20	-	-	20
Vested executive compensation	-	-	-	170	(170)	-	-
Executive and trustee compensation	-	-	-	76	192	-	268
Balance December 31, 2009	\$ 103,623	\$ (429,461)	\$ (325,838)	\$ 815,190	\$ 4,995	\$ 12,642	\$ 506,989

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)	Year Ended December 31, 2009		Year Ended December 31, 2008 (Restated, Note 24)	
OPERATING ACTIVITIES				
(Loss) income from continuing operations	\$	(17,854)	\$	30,570
Add (deduct) items not affecting operations				
Depreciation and amortization		90,688		86,852
Writedown of hotel properties and other assets		24,926		4,939
Non-cash portion of mortgage interest expense		1,680		1,509
Non-cash portion of convertible debentures interest and accretion		2,142		2,784
Future income tax recovery		(24,547)		(14,526)
Non-cash executive and trustee compensation		268		619
Discontinued operations		(494)		1,029
Changes in non-cash working capital		(2,088)		944
		74,721		114,720
FINANCING ACTIVITIES				
Repayment of long-term debt		(11,152)		(164,262)
Proceeds from long-term debt		5,979		398,920
Issue of new units, net		47,601		-
Issue of convertible debentures		47,825		-
Units repurchased pursuant to normal course issuer bid (Note 17)		(1,166)		(939)
Distributions to unitholders		(49,543)		(67,432)
Decrease in operating loan		-		(8,200)
Repayment of bridge loan		(2,000)		(215,000)
Proceeds from bridge loan		-		8,899
Discontinued operations repayment of debt		(4,641)		(5,891)
		32,903		(53,905)
INVESTING ACTIVITIES				
Capital expenditures on hotel properties		(25,167)		(42,171)
Hotel under development expenditures, net		(82)		(6,078)
Change in intangible and other assets		(1,784)		(305)
Acquisition of hotel property		-		(32,316)
Increase in restricted cash		(802)		(18)
Discontinued operations capital expenditures		(42)		(686)
Proceeds from sale of discontinued assets, net of costs and mortgages receivable		3,164		16,631
		(24,713)		(64,943)
Increase (decrease) in cash during the year		82,911		(4,128)
Cash, beginning of year		18,143		22,271
Cash, end of year	\$	101,054	\$	18,143
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$	65,365	\$	68,196
Cash paid for income taxes (including capital tax)	\$	230	\$	186

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

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

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 of "INN.UN". As at December 31, 2009, the REIT owned 145 Canadian hotels operated under international brands and has a 50% interest in Choice Hotels Canada Inc. ("CHC").

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 a joint venture, the REIT's 50% interest in CHC, and a co-tenancy that owns one of its hotels.

Comprehensive Income

The REIT recognizes comprehensive income which represents changes in the unitholders' equity during a period arising from transactions and other events with non-owner sources. For the years ended December 31, 2009 and 2008, there is no difference between the REIT's Consolidated Statement of Net Loss and its Statement of Comprehensive Loss and there is no accumulated other comprehensive income as at December 31, 2009 and 2008.

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 year. Actual results could differ from those estimates. Significant estimates are required in the determination of future cash flows and probabilities in assessing the recoverability of hotel properties and other long-term assets, the allocation of the purchase price to components of hotels and other real estate assets acquired, determination of useful lives for depreciation and amortization purposes, conditional asset retirement obligations, fair value of financial instruments for disclosure purposes, value of conversion options in convertible debentures and the determination of future income tax assets and liabilities.

Hotel Properties

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

Newly Built Hotels Acquired or Developed

The REIT capitalizes costs when developing a property. The capitalized costs include pre-construction costs essential to the development of the hotel, construction costs, chattel costs, real estate taxes, interest on hotel specific debt, general and administrative expenses incurred directly in connection with the acquisition and/or development of hotel properties, and net operating losses, prior to substantial completion and readiness for use, which is determined to be the earlier of hotel operating income break-even or one year.

Other Real Estate Properties

Other real estate properties include office and retail properties as well as a retirement residence. Office and retail properties include land and buildings. The buildings are stated at cost less accumulated depreciation. The retirement residence includes land, buildings and furniture, fixtures and equipment. The buildings and furniture, fixtures and equipment are stated at cost less accumulated depreciation.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

2. Significant Accounting Policies (continued)

Depreciation

Depreciation for Hotel Properties and Other Real Estate Properties is provided on a straight-line basis over a period not to exceed the following:

Buildings	- 40 years
Building renovations	- 7 years
Furniture, fixtures and equipment	- 7 years

Asset Retirement Obligation

The REIT recorded an asset retirement obligation related to various environmental obligations for certain properties where the quantum of such costs and the timing for settlement is reasonably determinable. The obligation relates to the eventual removal of asbestos, underground storage tanks and polychlorinated biphenyls ("PCBs") and eventual remediation of land contamination. The asset will be amortized over the remaining life of the building. The liability will be accreted over the terms of the obligations.

Impairment of Long-lived Assets

Management reviews long-lived assets 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 cumulative future cash flows of a long-lived asset are less than its carrying value, the long-lived asset is written down to its fair value. Cumulative future cash flows represent the undiscounted estimated future cash flow expected to be received from the long-lived asset. Assets reviewed for impairment under this policy include hotel properties, other real estate properties, licence contracts and intangible assets.

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 earnings stream under the contract terms at the time of acquisition. This amount is amortized over the average life or expected renewal life of the contracts, which is estimated to be twenty years.

Intangible and Deferred Assets

Intangible assets may include customer and tenant relationships, lease origination costs, above and below market leases and franchise rights recognized upon acquisition of new hotel properties and other real estate properties. Deferred assets include deferred financing fees on credit facilities upon which the REIT can draw funds.

Customer and tenant relationships are amortized over five years. Lease origination costs, above and below market leases and franchise rights are amortized over the term of the respective leases. Deferred financing fees are amortized over the term of the credit facilities upon which the REIT can draw funds.

Effective January 1, 2009, the REIT adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3064 – *Goodwill and Intangible Assets*. The standard was applied retrospectively. This new standard had no material impact on the REIT.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

2. Significant Accounting Policies (continued)

Guarantees

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

Financial Instruments

Financial Instruments – Recognition and Measurement

Financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

The REIT has designated its accounts receivable and mortgages receivable as “loans and receivables” and its long-term debt, convertible debentures, and accounts payable and accrued liabilities as “other liabilities”, all of which are reflected on the balance sheet at amortized cost using the effective interest method (“EIM”).

The REIT has recorded the interest expense for both the mortgage debt and convertible debentures using the EIM. Transaction costs that are directly attributable to the issue of financial instruments classified as other than “held-for-trading” are included in the initial carrying value of such instruments and amortized using the EIM so as to yield a constant rate of interest over the life of the particular financial instrument.

Cash, restricted cash and bank indebtedness have been designated as “held-for-trading” and are reflected on the balance sheet at fair value.

Long-term debt assumed on the acquisition of hotel properties is recorded at its 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 has been amortized to interest expense using EIM until maturity.

Fair Value

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm’s-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs. The REIT’s financial assets include cash and restricted cash, accounts receivable, and mortgages receivable (included in Intangible and other assets). The REIT’s financial liabilities include bank indebtedness, accounts payable and accrued liabilities, long-term debt and convertible debentures. Except as noted below, the carrying value of the REIT’s financial assets and financial liabilities approximate their fair values because of the short period until receipt or payment of cash. The fair values of long-term debt are based on the current market conditions for mortgages with similar terms and conditions. The fair value of the convertible debentures is based on the current market rates for convertible debentures.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

2. Significant Accounting Policies (continued)

Financial Instruments (continued)

Fair Value (continued)

Fair value measurements recognized in the balance sheet are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- (i) Level 1 – derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the REIT has the ability to access at the measurement date;
- (ii) Level 2 – derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- (iii) Level 3 – derived from inputs for the asset or liability that is not based on observable market data (unobservable inputs).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

Defined Benefit Pension Plans

The REIT maintains defined benefit pension plans for the benefit of management employees and non-union non-management employees of certain hotels acquired in 2006 and 2007.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets, at the beginning of the year, is amortized over the remaining service period of active employees. The transitional asset or liability is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plans. The average remaining service periods of the active employees covered by the pension plan for the benefit of management employees and non-union non-management employees are 14 years and 16 years, respectively.

Revenue Recognition

Hotel Revenue

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

Franchise Revenue

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.

Retail, Office and Retirement Residence Revenue

The REIT retains all the risks and benefits of ownership of its other real estate properties and therefore accounts for leases with its tenants as operating leases. Rental revenue from retail, office and retirement residence leases includes all amounts earned from tenants related to lease agreements and recognizes the revenues on a straight-line basis.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

2. Significant Accounting Policies (continued)

Income Taxes

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 enacted or substantively enacted income tax rates for the years in which tax and accounting basis differences are expected to reverse.

Executive Compensation Plan

The senior executives participate in an incentive plan that involves the issuance of REIT units. A unit granted 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 issuance of units under this plan is recorded as compensation expense, on a straight-line basis over the vesting period, based on the fair value of the REIT units on the date of grant.

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 to 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 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	December 31, 2009 Net Book Value
Land	\$ 184,248	\$ -	\$ 184,248
Buildings	1,678,398	226,658	1,451,740
Furniture, fixtures and equipment	142,740	63,196	79,544
	\$ 2,005,386	\$ 289,854	\$ 1,715,532

	Cost	Accumulated Depreciation	December 31, 2008 Net Book Value
Land	\$ 184,248	\$ -	\$ 184,248
Buildings	1,690,294	172,586	1,517,708
Furniture, fixtures and equipment	141,512	50,640	90,872
	\$ 2,016,054	\$ 223,226	\$ 1,792,828

(Restated, Note 24)

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

3. Hotel Properties (continued)

During the year ended December 31, 2009, the two hotels accounted for as development properties with a combined net book value of \$34,199 (2008 - \$35,352) became operating properties in accordance with the REIT's accounting policy for newly built hotels acquired or developed and, as such, were subject to depreciation. Capitalized net operating losses during 2009 were \$82 (2008 - \$ 838). These losses include mortgage interest capitalized of \$87 (2008 - \$1,009).

The REIT's ongoing review of hotel properties for impairment of value, identified eight hotels at December 31, 2009 that it does not intend to hold for a significant portion of their remaining useful lives which required a writedown of their carrying values by \$24,926 to their net realizable amount (2008 - two owned hotels and one leasehold hotel required a writedown of \$4,939 to their estimated fair value.). The net realizable amount is estimated as the sale price net of anticipated transaction costs. The writedown included one Quebec hotel and seven Ontario hotels. These assets do not meet the criteria to be classified as assets held for sale and shown as discontinued operations, therefore they remain in hotel properties and continuing operations.

4. Other Real Estate Properties

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

	Cost	Accumulated Depreciation	December 31, 2009 Net Book Value
Land	\$ 1,624	\$ -	\$ 1,624
Buildings	15,491	1,396	14,095
Furniture, fixtures and equipment	96	45	51
	\$ 17,211	\$ 1,441	\$ 15,770

	Cost	Accumulated Depreciation	December 31, 2008 Net Book Value
Land	\$ 1,624	\$ -	\$ 1,624
Buildings	15,416	1,004	14,412
Furniture, fixtures and equipment	72	30	42
	\$ 17,112	\$ 1,034	\$ 16,078

5. Licence Contracts

	Cost	Accumulated Amortization	December 31, 2009 Net Book Value
Licence contracts	\$ 26,320	\$ 9,783	\$ 16,537

	Cost	Accumulated Amortization	December 31, 2008 Net Book Value
Licence contracts	\$ 26,320	\$ 8,467	\$ 17,853

During the year ended December 31, 2009, the license contracts were amortized by \$1,316 (2008 - \$1,316).

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

6. Intangible and Other Assets

	Cost	Accumulated Amortization	December 31, 2009 Net Book Value
Intangible Assets:			
Customer relationships	\$ 48,794	\$ 24,640	\$ 24,154
Tenant relationships	2,573	1,740	833
Franchise rights	3,096	1,160	1,936
Lease origination costs	6,256	916	5,340
Other	1,047	748	299
Total Intangible Assets	61,766	29,204	32,562
Other Assets:			
Mortgages receivable	3,441	-	3,441
Total Intangible and Other Assets	\$ 65,207	\$ 29,204	\$ 36,003

	Cost	Accumulated Amortization	December 31, 2008 Net Book Value (Restated, Note 24)
Intangible Assets:			
Customer relationships	\$ 48,794	\$ 14,875	\$ 33,919
Tenant relationships	2,590	1,320	1,270
Franchise rights	1,750	1,034	716
Lease origination costs	6,256	515	5,741
Other	1,042	540	502
Total Intangible Assets	60,432	18,284	42,148
Other Assets:			
Deferred financing costs related to bridge loan	101	84	17
Total Intangible and Other Assets	\$ 60,533	\$ 18,368	\$ 42,165

During the year ended December 31, 2009, the intangible assets were amortized by \$11,387 (2008 - \$10,958) and the deferred financing costs related to the bridge loan were amortized by \$17 (2008 - \$1,398).

On April 1, 2009, as part of the sale of an Ontario hotel property held for sale since 2007, the REIT gave a vendor-take-back mortgage of \$2,700 with 4.75% interest payable monthly in arrears, for a two-year term. This mortgage receivable is secured by a mortgage on the property.

On July 29, 2009, as part of the sale of another Ontario hotel property held for sale since March 31, 2009, the REIT gave a vendor-take-back mortgage of \$500 with 5.0% interest payable monthly in arrears, for a two-year term. This mortgage receivable is also secured by a mortgage on that property.

Also included in mortgages receivable is a mortgage receivable for \$241 with 4.0% interest payable quarterly, for a three-year term, due May 1, 2012.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

7. Joint Venture and Co-tenancy

The following represents the proportionate share of the REIT's 50% interest in CHC, a joint venture, and 50% share in a co-tenancy that owns one of its hotels:

	December 31, 2009	December 31, 2008
Current assets	\$ 4,369	\$ 5,538
Fixed assets	3,977	4,080
Current liabilities	3,580	3,943
Long-term liabilities	3,833	4,967
Revenues	8,954	10,382
Expenses	5,568	6,942
Net income	3,386	3,440
Cash flow from (used in):		
Operating activities	2,524	5,462
Financing activities	(3,507)	(3,975)
Investing activities	(48)	(164)

Included in current assets above is \$1,566 which represents the REIT's 50% share of the restricted cash held by CHC.

8. Bank Indebtedness

Proceeds of \$9,000 from a bridge loan were received on March 19, 2008 for 365 days, whereby the REIT provided an unencumbered hotel as security. This loan was extended to August 31, 2009 during the six-months ended June 30, 2009 and included a pay-down of \$2,000, made on April 7, 2009. During the third quarter of 2009, the bridge loan was further extended to February 28, 2010. As at December 31, 2009, the bridge loan amount was \$7,000 (2008 - \$9,000). The extension bears interest at Canadian Bankers' Acceptance rate plus 3.5% and requires interest payments only. Subsequent to December 31, 2009, the REIT paid down \$1,000 and the remaining balance of the loan was extended to March 1, 2011 and therefore was reclassified to long-term debt.

9. Long-term Debt

	December 31, 2009	December 31, 2008
Mortgages payable	\$ 946,755	\$ 948,064
Less debt issuance costs	(6,147)	(6,984)
Total long-term debt	940,608	941,080
Less current portion	(21,252)	(10,763)
Net long-term debt	\$ 919,356	\$ 930,317

Substantially all of the REIT's assets have been pledged as security under debt agreements. At December 31, 2009, long-term debt had a weighted average interest rate of 5.9% (2008 - 5.7%) and a weighted average effective interest rate of 6.1% (2008 - 5.8%). The long-term debt is repayable in average monthly payments of principal and interest totalling \$6,190 (2008 - \$5,483) per month, and matures at various dates from February 28, 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 December 31, 2009, the REIT qualifies for the maximum amount of \$40,000. The amount drawn on the operating line as at December 31, 2009 was \$ nil (2008 - \$ nil).

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

9. Long-term Debt (continued)

Scheduled repayment of long-term debt is as follows:

	Regular Amortization	Due on Maturity	Total
2010	\$ 21,252	\$ -	\$ 21,252
2011	16,954	321,686	338,640
2012	18,067	172,619	190,686
2013	14,257	-	14,257
2014	8,032	283,764	291,796
2015 and thereafter	4,829	85,295	90,124
	\$ 83,391	\$ 863,364	\$ 946,755

The estimated fair value of the REIT's long-term debt at December 31, 2009 was approximately \$912,912 (2008 - \$924,900). 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 \$103,117 (2008 - \$92,129) of mortgages payable, which are subject to floating interest rates. Annual interest expense will increase by \$1,031 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.

On November 30, 2009, the REIT refinanced \$177,034 of long-term debt with one of its main lenders which was to come due in July 2010. The financing has a term of three years from the date of close. The new debt has an average blended rate of 7.5% with an amortization of twenty-five years. The REIT has treated this transaction as a modification of debt therefore no repayment of nor proceeds from long-term debt is reflected in the Consolidated Statements of Cash Flow.

10. Other Long-term Obligations

	December 31, 2009	December 31, 2008 (Restated, Note 24)
Capital leases	\$ 1,549	\$ 1,662
Other lease obligations	767	658
	2,316	2,320
Less current portion	(276)	(195)
Total lease obligations	2,040	2,125
Pension liability	3,304	3,522
Asset retirement obligation	1,552	1,492
Total other long-term obligations	\$ 6,896	\$ 7,139

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

10. Other Long-term Obligations (continued)

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 December 31, 2009 consists of the following:

	Management Pension Benefit Plans	Non-Union Management Pension Benefit Plans	December 31, 2009 Total Benefit Plans	December 31, 2008 Total Benefit Plans
Accrued benefit obligation	\$ 4,528	\$ 1,344	\$ 5,872	\$ 5,513
Fair value of plan assets	2,228	1,204	3,432	3,263
Funded status - plan deficit	2,300	140	2,440	2,250
Unamortized net actuarial gain (loss)	881	(17)	864	1,272
Accrued employee future benefit liability	\$ 3,181	\$ 123	\$ 3,304	\$ 3,522

The pension expense for the year ended December 31, 2009 is \$203 (2008 - \$651).

11. Convertible Debentures

The details of the four series (2008 – three 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	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

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, 2008
Series A	April 15, 2011	6.25%	7.73%	\$ 57,500	\$ (11,736)	\$ 45,764	\$ (2,289)	\$ 1,065	\$ 44,540
Series B	May 31, 2013	6.00%	7.53%	75,000	-	75,000	(3,400)	(932)	70,668
Series C	August 1, 2014	5.85%	7.42%	70,000	-	70,000	(2,953)	(2,085)	64,962
				\$ 202,500	\$ (11,736)	\$ 190,764	\$ (8,642)	\$ (1,952)	\$ 180,170

The fair value of the REIT's convertible debentures, estimated based on the market rates for convertible debentures as at December 31, 2009, is \$234,445 (2008 - \$102,108).

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

11. Convertible Debentures (continued)

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 ("Series A – 6.25% Debentures"). 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). During 2006 and 2007, \$11,736 of these debentures had been converted to InnVest units. The InnVest units to be issued upon conversion of the balance of the Series A – 6.25% Debentures are 3,661,120 units.

On or after April 15, 2008 to April 14, 2010, the Series A – 6.25% Debentures may be redeemed by the REIT, in whole or in part, on not more than 60 days and on not less than 30 days prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the units on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is received, exceeds 125% of the conversion price. On or after April 15, 2010, the Series A – 6.25% Debentures may be redeemed by the REIT at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. There were no conversions of Series A – 6.25% Debentures during the years ended December 31, 2009 and 2008.

In accordance with GAAP, the holder conversion option was valued separately from the convertible debentures at \$2,875, 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 over the term of the Series A – 6.25% Debentures using the effective interest method ("EIM"). This balance was decreased by \$586 as a result of converted debentures in 2006 and 2007.

Series B Debentures

On May 16, 2006, the REIT announced the closing on a bought deal basis of \$75,000 6% convertible unsecured subordinated debentures ("Series B – 6.00% Debentures"). These debentures are convertible into InnVest units at a strike price of \$14.90 per unit, bear interest at 6.00% per annum payable semi-annually on May 31 and November 30 of each year and will mature May 31, 2013. The InnVest units to be issued upon conversion of the Series B – 6.00% Debentures are 5,033,557. Each \$1 principal amount is convertible at the option of the holder into 67 units.

The Series B – 6.00% Debentures were not redeemable prior to May 31, 2009. From May 31, 2009 to May 31, 2011, the Series B – 6.00% Debentures may be redeemed by the REIT, in whole or in part, on not more than 60 days and on not less than 30 days prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is received, exceeds 125% of the conversion price. On or after June 1, 2011, the Series B – 6.00% Debentures may be redeemed by the REIT at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. During the year ended December 31, 2009, 1,342 units (2008 – nil) were issued as a result of conversion of debentures at a price of \$14.90 per unit.

The holder conversion option was valued separately from the convertible debentures at \$3,400. The holder conversion option is being accreted over the term of the Series B – 6.00% Debentures using the EIM.

Series C Debentures

On August 3, 2007, the REIT announced the closing on a bought deal basis of \$70,000, 5.85% convertible unsecured subordinated debentures ("Series C – 5.85% Debentures"). These debentures are convertible into InnVest units at a strike price of \$14.70 per unit, bear interest at 5.85% per annum payable semi-annually on February 1 and August 1 of each year and will mature August 1, 2014. The InnVest units to be issued upon conversion of the Series C – 5.85% Debentures are 4,761,905. Each \$1 principal amount is convertible at the option of the holder into 68 units. The Series C – 5.85% Debentures are not redeemable prior to August 1, 2010.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

11. Convertible Debentures (continued)

Series C Debentures (continued)

On or after August 1, 2010 and prior to August 1, 2012, the Series C – 5.85% Debentures may be redeemed by the REIT, in whole or in part, on not more than 60 days and on not less than 30 days prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is received, exceeds 125% of the conversion price. On or after August 1, 2012 and prior to August 1, 2014, the Series C – 5.85% Debentures may be redeemed by the REIT at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. There were no conversions of Series C debentures during the years ended December 31, 2009 and 2008.

The holder conversion option was valued separately from the convertible debentures at \$2,953. The holder conversion option is being accreted over the term of the Series C – 5.85% Debentures using the EIM.

Series D Debentures

On December 30, 2009, the REIT announced the closing on a bought deal basis of \$50,000, 6.75% convertible unsecured subordinated debentures (“Series D – 6.75% Debentures”). These debentures are convertible into InnVest units at a strike price of \$5.70 per unit, bear interest at 6.75% per annum payable semi-annually on March 31 and September 30 of each year and will mature March 31, 2016. The InnVest units to be issued upon conversion of the Series D – 6.75% Debentures are 8,771,930. Each \$1 principal amount is convertible at the option of the holder into 175 units. The Series D – 6.75% Debentures are not redeemable on or prior to December 31, 2013.

From January 1, 2014 to December 31, 2014, the Series D – 6.75% Debentures may be redeemed by the REIT, in whole or in part, on not less than 30 days prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given, is not less than 125% of the conversion price. On or after January 1, 2015, the Series D – 6.75% Debentures may be redeemed by the REIT in whole or in part, at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. There were no conversions of Series D debentures during the year.

The holder conversion option was valued separately from the convertible debentures at \$4,000. The holder conversion option is being accreted over the term of the Series D – 6.75% Debentures using the EIM.

12. 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.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

12. Capital Management (continued)

At December 31, 2009, 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.

At December 31, 2009, the REIT's leverage excluding and including convertible debentures was 45.1% and 56.4%; respectively, calculated as follows:

	December 31, 2009		December 31, 2008		
Total assets per consolidated balance sheet	\$	1,950,209	\$	1,977,104	
Accumulated depreciation and amortization		345,098		269,331	
Future income tax liability		(186,430)		(210,977)	
Future income tax liability not included in assets		16,114		18,834	
Gross asset value	\$	2,124,991	\$	2,054,292	
Book value of mortgages and other indebtedness (1)	\$	958,636	45.1%	\$ 970,071	47.2%
Convertible debentures (2)		240,744	11.3%	190,764	9.3%
	\$	1,199,380	56.4%	\$ 1,160,835	56.5%

(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 13. 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 \$50,623 in equity during the year ended December 31, 2009 (2008 - \$13,536).

As outlined in the Declaration of Trust, the REIT is required to distribute monthly to unitholders not less than one-twelfth of eighty percent (80%) of distributable income of the REIT for the calendar year (see Note 19).

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

12. Capital Management (continued)

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 2.2 times at December 31, 2009 and 2.7 times at December 31, 2008);
- Trailing 12 months consolidated EBITDA to consolidated debt service of not less than 1.5 times (actual being 1.9 times at December 31, 2009 and 2.3 times at December 31, 2008); and
- Unitholders' Equity of not less than \$300,000 (actual being \$506,989 at December 31, 2009 and \$535,730 at December 31, 2008).

13. Income Taxes and Future Income Tax Liability

The future income tax liability relates to tax and book basis differences of the following:

	December 31, 2009	December 31, 2008
Hotel properties	\$ 185,305	\$ 209,189
Licence contracts	4,117	4,397
Financing costs and other assets	(2,992)	(2,609)
	\$ 186,430	\$ 210,977

The provision for income taxes is summarized as follows:

	Year Ended December 31, 2009	Year Ended December 31, 2008
(Loss) income from continuing operations before income tax recovery	\$ (42,401)	\$ 16,044
Income tax based on a combined Federal and Provincial	\$ (13,992)	\$ 5,375
Tax effect of loss not recognized (income attributable to unitholders)	12,147	(5,324)
Income tax effect of statutory rate adjustment	(13,378)	-
Effects of rescheduling temporary differences	(2,582)	(13,151)
Effects of writedowns	(6,742)	(1,426)
Income tax recovery	\$ (24,547)	\$ (14,526)

During 2009 various provincial general corporate income tax rate reductions were enacted. Future income tax recovery of \$13,378 relating to these rate reductions was recognized in the consolidated statements of net loss.

InnVest currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, InnVest intends to distribute all taxable income to its unitholders and to deduct these distributions for income tax purposes (see Note 19).

Under the Canadian income tax rules applicable to "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 Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

13. Income Taxes and Future Income Tax Liability (continued)

InnVest is pursuing a reorganization in order to become a Qualifying REIT. The reorganization, which would occur under a plan of arrangement, would take effect only upon receiving approval from InnVest's trustees and unitholders, as well as all necessary regulatory approvals, including conditional approval from the Toronto Stock Exchange.

As currently contemplated, under the reorganization InnVest would transfer all of its directly and indirectly held operating assets to a newly formed taxable entity (the "New Entity"). The New Entity (through its subsidiaries) would hold the operating assets, earn revenues from hotel customers and pay rent to InnVest (who would continue to be the owner of the hotels). Each InnVest unitholder would receive one unit of the New Entity for each InnVest unit held. Thereafter, each issued and outstanding InnVest unit would trade together with a unit of the New Entity on a "stapled" basis.

14. Guarantees

Significant guarantees provided by the REIT to third parties are as follows:

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 or 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 REIT has purchased trustees' and officers' liability insurance. 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. No amount has been recorded in the financial statements with respect to these indemnification agreements.

Indemnification of Underwriters

The REIT has entered into agreements that provide for indemnification in underwriting agreements. These indemnifications generally require the REIT to indemnify the underwriters for costs incurred as a result of losses from litigation that may be suffered by the underwriters 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.

15. 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 December 31, 2009, the REIT's floating rate debt balance of \$103,117 (2008 - \$92,129) is approximately 10.9% (2008 - 9.6%) of total long-term debt.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

15. 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 December 31, 2009 are \$22,409 (2008 - \$27,319). 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 December 31, 2009 is \$505 or 2.3% (2008 - \$805 or 2.9%) of total receivables. The amount credited in the operating income for the year ended December 31, 2009 is \$127, due to amounts provided for, which were subsequently collected (total included in hotel expense for the year ended December 31, 2008 - \$311). Accounts receivable amounts outstanding for over 90 days, which have not been provided for, total \$106 at December 31, 2009 (2008 - \$355).

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:

	2010	2011	2012	2013	2014	2015 and Thereafter	Contractual Cash flows (2)
Mortgage payable - principal (1)	\$ 21,252	\$ 338,640	\$ 190,686	\$ 14,257	\$ 291,796	\$ 90,124	\$ 946,755
Mortgage payable - interest (3)	55,013	40,721	34,502	21,682	10,900	5,115	167,933
Convertible debentures - principal	-	45,764	-	74,980	70,000	50,000	240,744
Convertible debentures - interest	13,974	13,399	11,969	9,719	7,470	5,063	61,594
Total (4)	\$ 90,239	\$ 438,524	\$ 237,157	\$ 120,638	\$ 380,166	\$ 150,302	\$ 1,417,026

(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 December 31, 2009.

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

Fair Values

The fair values of the REIT's financial assets and liabilities, representing net working capital, approximate their recorded values at December 31, 2009 and 2008 due to their short-term nature.

The fair value of the REIT's long-term debt is less than the carrying value by approximately \$33,843 at December 31, 2009 (2008 - \$23,164) 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.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

15. Financial Instruments (continued)

Fair Values (continued)

The fair value of the REIT's convertible debentures is less than the carrying value by approximately \$4,115 at December 31, 2009 (2008 – \$86,704). The fair value of convertible debentures has been estimated based on the market rates for convertible debentures, as at December 31, 2009 and December 31, 2008.

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

	December 31, 2009	December 31, 2008
Financial Assets:	Level 1	Level 1
Cash and restricted cash	\$ 104,869	\$ 21,156
Financial Liabilities:		
Bank indebtedness	\$ -	\$ 9,000

The REIT has no Level 2 nor Level 3 inputs.

16. Commitments and Contingencies

Lease Commitments

The REIT is committed under various equipment operating leases to minimum annual rental payments and under long-term land and building leases to minimum annual payments as follows:

	Equipment Leases	Land and Building Leases	Total
2010	\$ 392	\$ 4,945	\$ 5,337
2011	172	4,802	4,974
2012	50	4,802	4,852
2013	35	4,802	4,837
2014	-	4,826	4,826
2015 and thereafter	-	87,353	87,353
	\$ 649	\$ 111,530	\$ 112,179

The land leases expire between 2015 and 2088. Certain of the operating leases are rentals that are determined as a percentage of revenues with no minimum amounts. They are excluded from these figures as they are not quantifiable.

Letters of Credit

As at December 31, 2009, the REIT has letters of credit totalling \$3,603 (2008 - \$3,693) held on behalf of security deposits for various utility companies and liquor licences, and additional security for the pension liabilities.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

17. 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, 2007	73,000,694	\$ 757,375
Units issued under distribution reinvestment plan	1,658,339	13,234
Units cancelled pursuant to normal course issuer bid	(278,500)	(2,877)
Units issued on conversion of debentures	-	-
Units issued for vested executive compensation plan	16,033	151
Units issued under trustee compensation plan	15,751	151
Balance at December 31, 2008	74,412,317	\$ 768,034
Issue of new units	12,658,500	47,601
Units issued under distribution reinvestment plan	720,399	2,756
Units cancelled 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 December 31, 2009	87,498,354	\$ 815,190

Pursuant to the REIT's normal course issuance bid (the "Bid"), the REIT purchased 354,636 units of which 336,549 units were cancelled upon purchase (2008 - 278,500 units) at an average price of \$3.49 per unit (2008 - \$3.36 per unit) and the remaining 18,087 units were transferred to the trustees of the REIT in satisfaction of a portion of their annual retainer fee. The REIT recognized \$2,301 of contributed surplus (2008 - \$1,938) upon the cancellation of these units. The Bid was renewed on November 12, 2009 and purchases under the renewed Bid commenced on November 16, 2009 and 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. Under the Trustee Compensation Plan, 41,380 units were awarded during the year ended December 31, 2009 (2008 - 29,659 units), 23,293 units from the reserve and 18,087 units which were bought under the Bid.

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 December 31, 2009 is 778,244 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.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

17. Unitholders' Equity (continued)

The following table summarizes the status of the executive compensation plan at December 31, 2009, excluding granted units which have fully vested:

	Unvested Executive units	Units Accumulated from Distributions	Total Units
January 1, 2006 - granted	12,968	6,856	19,824
January 1, 2007 - granted	15,000	7,842	22,842
January 1, 2008 - granted	20,455	8,008	28,463
January 1, 2009 - granted	25,500	4,981	30,481
Units vested 2009	(6,484)	(2,546)	(9,030)
	67,439	25,141	92,580

The Board of Trustees approved the granting of 25,500 units as of January 1, 2009. 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.

18. Per Unit Information

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Weighted Average Units		Weighted Average Units	
				(Restated, Note 24)
(Loss) income from continuing operations - basic	\$ (17,854)	77,269,226	\$ 30,570	73,827,775
Dilutive effect of executive compensation plan	-	85,773	-	65,093
(Loss) income from continuing operations - diluted	\$ (17,854)	77,354,999	\$ 30,570	73,892,868

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Weighted Average Units		Weighted Average Units	
Net loss - basic	\$ (30,923)	77,269,226	\$ (3,377)	73,827,775
Dilutive effect of executive compensation plan	-	85,773	-	65,093
Net loss - diluted	\$ (30,923)	77,354,999	\$ (3,377)	73,892,868

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

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

19. 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. As outlined in the Declaration of Trust, the REIT is required to distribute monthly to unitholders not less than one-twelfth of eighty percent (80%) of distributable income of the REIT for the calendar year.

	Year Ended December 31, 2009	Year Ended December 31, 2008
Net loss	\$ (30,923)	\$ (3,377)
Add (deduct)		
Depreciation and amortization	91,218	89,607
Writedown of hotel properties	24,926	4,939
Future income tax recovery	(24,547)	(14,526)
Non-cash portion of mortgage interest expense	1,680	1,509
Non-cash portion of convertible debentures interest and accretion	2,142	2,784
Reserve for replacement of furniture, fixtures, equipment, capital improvements	(25,085)	(28,352)
Net writedown of and gain on sale of assets held for sale	11,789	32,310
Non-cash executive and trustee compensation	268	619
Deferred land lease expense and retail lease income, net	56	27
	82,447	88,917
Distributable income	51,524	85,540
Distributions		
Required under the Declaration of Trust	41,219	68,432
Discretionary	10,078	10,041
Distributions paid or payable	51,297	78,473
Distributions less than distributable income	\$ (227)	\$ (7,067)

20. 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.

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 (all dollar amounts are in thousands, except unit and per unit amounts)

20. Management Agreements (continued)

The Agreements have an initial term of ten years with two successive five-year renewal terms, subject to the consent of Westmont and approval of the REIT. On September 15, 2008, the REIT exercised the first five-year extension term on the Agreements, extending the expiration to July 25, 2017. The REIT's independent trustees approved the extension following a review by third-party hospitality consulting firms based in Canada. 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 recorded \$132 of termination fees during the year ended December 31, 2009 (2008 - \$215).

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 years ended December 31, 2009 and 2008, the fees charged to the REIT pursuant to the Agreements were as follows:

	Year Ended December 31, 2009	Year Ended December 31, 2008 (Restated, Note 24)
Fees from continuing operations:		
Management fees	\$ 11,010	\$ 12,262
Asset management fees (included in management fee expense)	2,019	2,309
Accounting services (included in hotel operating expenses)	2,230	2,187
Administrative services (included in corporate and administrative expenses)	450	452
Project management and general contractor services (capitalized to hotel properties)	666	983
Fees from discontinued operations	799	1,294
	\$ 17,174	\$ 19,487

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT were \$277 (2008 - \$237). Included in accounts payable and accrued liabilities are amounts owed to Westmont at December 31, 2009 totalling \$1,193 (2008 - \$1,484).

Other Management Agreements

The REIT entered into management agreements with Hilton Canada Co. ("Hilton") to manage the two Hilton hotels acquired in 2006. The agreements provide for the payment of an annual management fee to Hilton in an amount equal to 2.5% until December 31, 2008 and then 3.0% of gross revenues during the balance of the term of the agreements. The agreements mature on December 31, 2026. For the year ended December 31, 2009, total management fees paid to Hilton were \$1,142 (2008 - \$1,212).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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20. Management Agreements (continued)

The REIT assumed the hotel management agreements with Delta Hotels Limited ("Delta"), dated January 1, 2003 when two Delta hotels were purchased in 2006. The agreements provide for the payment of an annual management fee to Delta in an amount equal 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 on December 31, 2015, with two ten-year extension options. For the year ended December 31, 2009, total management fees paid to Delta were \$486 (2008 - \$508).

The REIT assumed the existing hotel management agreements with Fairmont Hotels and Resorts ("Fairmont") or Delta for each of 11 hotel properties acquired in 2007. The agreements provide for the payment of a base management fee and an incentive management fee to either Fairmont or Delta. The REIT also assumed a portfolio incentive fee for which six properties participate. The base management fee is equal to 3% of total hotel revenues for nine of the hotels and 2% of total hotel revenues for the remaining two hotels. The agreements mature from December 31, 2010 to December 31, 2047. The incentive management fees and 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. For the year ended December 31, 2009, total management fees paid for these properties were \$7,960 (2008 - \$10,090).

21. 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. The comparatives have been restated to exclude discontinued operations and assets held for sale at December 31, 2009.

	Western	Ontario	Quebec	Atlantic	Total
Year ended December 31, 2009					
Hotel revenues	\$ 157,614	\$ 214,348	\$ 129,431	\$ 93,088	\$ 594,481
Hotel expenses	111,580	166,765	102,074	72,134	452,553
Hotel operating income	\$ 46,034	\$ 47,583	\$ 27,357	\$ 20,954	\$ 141,928
Year ended December 31, 2008 (Restated, Note 24)					
Hotel revenues	\$ 177,108	\$ 236,299	\$ 147,162	\$ 99,453	\$ 660,022
Hotel expenses	123,657	173,612	108,738	74,394	480,401
Hotel operating income	\$ 53,451	\$ 62,687	\$ 38,424	\$ 25,059	\$ 179,621
Capital expenditures on hotel properties,					
Year ended December 31, 2009	\$ 8,275	\$ 10,498	\$ 3,540	\$ 2,854	\$ 25,167
Year ended December 31, 2008 (Restated, Note 24)	\$ 9,197	\$ 13,651	\$ 11,707	\$ 7,616	\$ 42,171
Hotel properties					
December 31, 2009	\$ 497,252	\$ 598,166	\$ 391,360	\$ 228,754	\$ 1,715,532
December 31, 2008 (Restated, Note 24)	\$ 512,176	\$ 636,711	\$ 407,409	\$ 236,532	\$ 1,792,828

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22. Total Revenues

	Year Ended December 31, 2009	Year Ended December 31, 2008 (Restated, Note 24)
Hotel revenues	\$ 594,481	\$ 660,022
Other business income (Note 23)	11,976	13,396
	\$ 606,457	\$ 673,418

23. Other Business Income

	Franchise Business	Retail/ Office	Retirement Residence	Year Ended December 31, 2009
Revenues	\$ 8,204	\$ 2,707	\$ 1,065	\$ 11,976
Expenses	4,843	1,231	718	6,792
Other business income, net	\$ 3,361	\$ 1,476	\$ 347	\$ 5,184

	Franchise Business	Retail/ Office	Retirement Residence	Year Ended December 31, 2008
Revenues	\$ 9,678	\$ 2,627	\$ 1,091	\$ 13,396
Expenses	5,885	1,197	684	7,766
Other business income, net	\$ 3,793	\$ 1,430	\$ 407	\$ 5,630

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.

24. Assets Held for Sale and Discontinued Operations

During the fourth quarter of 2008 the REIT identified four hotels, three in Ontario and one in Quebec, that it believed may not meet the long-term objectives of the REIT. Under CICA Section 3475 – *Disposal of Long-lived Assets and Discontinued Operations*, these four hotel properties and another Ontario property which is to be expropriated, met the criteria and were reclassified as assets held for sale in the first quarter of 2009. These assets are expected to sell within one year. The operating results of these five hotels are presented as discontinued operations for the years ended December 31, 2009 and 2008. The prior year comparative balances have been restated to reflect these operations as discontinued operations. During the year ended December 31, 2009, the REIT took a writedown of \$11,789 on these assets.

On July 29, 2009, the REIT sold one Ontario hotel that was held for sale for \$3,300 less closing costs. No gain or loss was recorded upon sale as the asset was written down to its realizable value. Debt owing of \$2,046 was paid out of the proceeds. As part of this transaction, the REIT gave a vendor-take-back mortgage of \$500 (see Note 6).

Three Ontario hotel properties and one Quebec hotel property were reclassified as assets held for sale on December 18, 2007 and are included in the discontinued operations for the year ended December 31, 2008. All but one Ontario hotel were sold during the year ended December 31, 2008. On April 1, 2009, the REIT sold the remaining Ontario hotel property held for sale since 2007, for \$4,100 less closing costs. No gain or loss was recorded upon sale as the asset was written down to its realizable value. As part of this transaction, the REIT gave a vendor-take-back mortgage of \$2,700 (see Note 6).

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24. Assets Held for Sale and Discontinued Operations (continued)

Discontinued operations for the years ended December 31, 2009 and 2008 are as follows:

	Year Ended December 31, 2009	Year Ended December 31, 2008
Hotel revenues	\$ 15,316	\$ 25,125
Hotel expenses		
Operating expenses	11,552	17,419
Property taxes, rent and insurance	3,429	4,588
Management fees	516	848
	15,497	22,855
Hotel operating (loss) income	(181)	2,270
Interest on mortgages	569	1,152
Depreciation and amortization	530	2,755
	1,099	3,907
Loss from discontinued operations	(1,280)	(1,637)
Gain on sale of assets held for sale	-	1,210
Writedown of assets held for sale	(11,789)	(33,520)
	(11,789)	(32,310)
Net loss from discontinued operations	\$ (13,069)	\$ (33,947)