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2007 First Quarter Report to Unitholders. For the three months ended March 31, 2007.

Letter to Unitholders

We continue to build on our performance of 2006, as we improved our RevPAR, funds from operations and distributable income. RevPAR increases were achieved in all regions as the result of increase in our average daily rates, with the Western region continuing to be the strongest contributor.

InnVest continued to pursue acquisition opportunities in the first quarter entering into a contract to purchase three hotels with a total of 348 rooms for a combined purchase price of \$48.2 million plus transaction costs. The transaction to acquire these new build hotel properties will close in stages as the construction of each hotel is completed, which is scheduled during the third quarter. The hotels include two 116 room Staybridge Suites located in London and Guelph, Ontario and a 116 room Holiday Inn Express located in North Bay, Ontario.

Subsequent to March 31, 2007, InnVest completed an early extension of \$147.7 million of mortgage debt with a weighted average interest rate of 7.4% that was to have matured in July 2008, fixing the interest rates on \$130 million at 5.8% for a blended interest rate of 6.17% per annum for a period of seven years and maintained floating rate debt of \$17.7 million, which at current rates bears interest at 6.3%. As part of this early extension, InnVest increased its financing by \$25.9 million, which at the present time is subject to floating interest rates.

We are well positioned to continue to identify attractive acquisition candidates and have significant unutilized capacity to make acquisitions that are accretive to cash flow and demonstrate long-term value. The REIT has unused operating loan availability of \$25 million after the early extension proceeds and eight hotel properties which remain unencumbered. The REIT estimates that the unencumbered hotels could generate approximately \$45 million in mortgage proceeds. The REIT also has an unused acquisition facility of \$40 million available to acquire hotel properties and an unused loan facility of \$29.1 million available to fund capital expenditures.

Continuing with its strategy of investing in its hotels, InnVest deployed approximately \$5.9 million for capital asset improvements during the first quarter.

Financial Review

For the quarter, InnVest's revenue per available room ("RevPAR") improved by 5.2% as RevPAR increased to \$53.89. Average daily rate increased by 7.8%. This is primarily due to the nature of the hotels we acquired in 2006, which typically yield higher rates than our base portfolio of hotels.

Room revenues for the three months ended March 31, 2007 were \$75.1 million, 15.3% higher than the \$65.1 million generated for the same period in 2006. The increase of \$9.9 million reflects the \$8.1 million in revenues from the hotels acquired in 2006. The balance of \$1.8 million improvement reflects an overall increase in room revenue of 2.8% in the Base Portfolio. There were increases in all geographical regions with the largest percentage and dollar increase experienced in the Western region.

Hotel expenses for the three months ended March 31, 2007 increased by \$13.1 million or 22.0% when compared to the same period in 2006. This increase reflects \$11.4 million in expenses incurred in the hotels acquired in 2006, which with the exception of one hotel for a few days, were not owned for any of the comparative period. The remaining \$1.7 million related to the Base Portfolio represents a 2.9% increase over the same period in 2006.

Distributable income grew to \$3.8 million for the three months ended March 31, 2007, an improvement of \$493 over the distributable income of \$3.3 million experienced in the same period in 2006. Distributable income per unit on a diluted basis grew slightly to \$0.068 from \$0.067.

Letter to Unitholders

The REIT's cash position at March 31, 2007 was \$7.7 million, of which \$2.4 million is restricted under the REIT's trust indenture for the replacement of furniture, fixtures, and equipment and for capital improvements. Financial leverage is at 37.7% debt to gross asset value excluding convertible debentures and 46.8% including convertible debentures.

In 2006, 40.5% of the distributions made during that year were not taxable to unitholders. For calendar 2007, the REIT estimates that approximately 40% of unitholder distributions will not be taxable to unitholders.

Outlook

Hotel operations for the first quarter typically achieve below average operating results because of the seasonality inherent in the Canadian hotel industry and as such generate below average cash flow. InnVest achieved a modest increase in funds from operations and distributable income. Further increases are expected for the remainder of the year as we approach the higher cash generating second and third quarters and we benefit from the hotels acquired in the second and third quarters of 2006.

The Canadian hospitality industry is performing as anticipated with RevPAR growth in all regions and particularly strong growth in western provinces. PKF Consulting Inc., ("PKF") lodging industry experts continue to forecast a 4% increase in RevPAR in 2007 due to the growth in demand continuing to outpace supply. Accordingly, InnVest is expecting growth within its base portfolio and from its 2006 acquisitions.

We expect to benefit from the anticipated growth in the hospitality industry, our ability to manage costs, our ability to capitalize on acquisition opportunities and re-financing activities completed in the second quarter.



Kenneth Gibson

President and Chief Executive Officer

May 11, 2007

Management's discussion and analysis

First quarter 2007 financial and operating highlights

- RevPAR growth was 2.8% during the first quarter of 2007 for InnVest's portfolio of hotels on a same hotel basis;
- Net income from continuing operations was \$106.7 million in the first quarter. After eliminating a one time reversal of future income tax liabilities of \$115.4 million resulting from a corporate restructuring, the net loss from continuing operations was \$8.7 million an increase of \$3.3 million over the net loss experienced for the same period in 2006;
- Distributable income grew 15.0% to \$3.8 million in the quarter, an increase of \$493 over the same period in 2006. Distributable income per unit on a diluted basis increased to \$0.068 from \$0.067;
- Payout ratio, distributions divided by distributable income on a trailing twelve month basis, increased slightly by 1.9% points from 95.0% at December 31, 2006 to 96.9% as a result of the seasonality impact on the hotels acquired after the end of the first quarter in 2006;
- The Comfort Inn Miramichi, New Brunswick was sold for \$2.4 million at the end of the first quarter;
- The corporate reorganization to simplify InnVest's structure, improve efficiencies and reduce costs was completed on January 2, 2007; and
- \$5.9 million was invested in our hotels.

Overview of InnVest REIT

The following is a discussion of the results of operations and financial condition of InnVest Real Estate Investment Trust ("InnVest" or the "REIT") for the three months ended March 31, 2007, with a comparison to the results of operations of InnVest for the three months ended March 31, 2006.

The following management's discussion and analysis ("MD&A") is dated May 9, 2007 and should be read in conjunction with the unaudited consolidated financial statements of the REIT and the notes thereto as at and for the three months ended March 31, 2007 and the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2006 and the MD&A dated March 7, 2007.

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

InnVest is an unincorporated open-ended real estate investment trust governed by the laws of Ontario and a Declaration of Trust. It is publicly traded and listed on the Toronto Stock Exchange under the symbol INN.UN.

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

InnVest's Portfolio of Hotels

InnVest holds Canada's largest hotel portfolio with 136 hotels and 15,592 rooms located in every province of Canada. InnVest also owns a 50% interest in Choice Hotels Canada Inc. ("Choice Canada"), the largest franchisor of hotels in Canada.

The portfolio consists of limited and full service hotel properties. Over 76% of InnVest's guest rooms are in Ontario and Québec.

InnVest operates these hotel properties under 12 internationally recognized franchise brands including Comfort Inn[®], Quality Suites[®], Quality Hotels[®], Holiday Inn[®], Radisson Hotels[®], Radisson Suites[®], Delta[®], Hilton Hotels[®], Hilton Garden Inn[®], Hilton Homewood Suites[®], Travelodge[®] and Best Western[®]. Comfort Inn represents 43.5% of the portfolio based on number of guest rooms. InnVest's hotels are typically located near major thoroughfares in urban and suburban areas, business centres, government and manufacturing facilities, universities, airports and tourist attractions.

Management's discussion and analysis

The hotels have a diverse customer base, including business travelers, leisure travelers, groups, organizations and corporate clients.

Brands	No. of Hotels	No. of Guest Rooms	% of Guest Rooms
Comfort Inn	84	6,780	43.5%
Holiday Inn	15	2,608	16.7%
Travelodge	11	1,839	11.8%
Quality Suites/Inn	8	1,096	7.0%
Quality Hotel	5	796	5.1%
Radisson Hotel/Suites	4	707	4.5%
Delta Hotel	3	582	3.8%
Hilton Hotels	2	768	5.0%
Best Western	1	130	0.8%
Hilton Garden Inn	1	120	0.8%
Hilton Homewood Suites	1	83	0.5%
Independent	1	83	0.5%
	136	15,592	100.0%

The Geographic Distribution of InnVest's Hotels and Rooms by Brand

	Ontario			Québec			Atlantic			Western		
	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms
Comfort Inn	38	3,155	20.2%	22	1,754	11.2%	15	1,126	7.2%	9	745	4.8%
Holiday Inn	13	2,260	14.5%	–	–	–	1	196	1.3%	1	152	1.0%
Travelodge	7	943	6.0%	–	–	–	–	–	–	4	896	5.7%
Quality Suites/Inn	4	604	3.9%	4	492	3.2%	–	–	–	–	–	–
Quality Hotel	1	212	1.4%	2	298	1.9%	1	160	1.0%	1	126	0.8%
Radisson Hotel/Suites	3	532	3.4%	1	175	1.1%	–	–	–	–	–	–
Delta Hotel	1	245	1.6%	2	337	2.2%	–	–	–	–	–	–
Hilton Hotels	–	–	–	1	571	3.7%	1	197	1.3%	–	–	–
Best Western	1	130	0.8%	–	–	–	–	–	–	–	–	–
Hilton Garden Inn	1	120	0.8%	–	–	–	–	–	–	–	–	–
Hilton Homewood Suites	1	83	0.5%	–	–	–	–	–	–	–	–	–
Independent	1	83	0.5%	–	–	–	–	–	–	–	–	–
	71	8,367	53.6%	32	3,627	23.3%	18	1,679	10.8%	15	1,919	12.3%

InnVest's Franchise, Office, Retail and Retirement Home Businesses

InnVest's franchise, office, retail and retirement home businesses remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Hotel Key Performance Measures

There are several key metrics that are used to measure the performance of the hotel industry and the relative strength of participants in the industry. Those measures are occupancy, average daily rates ("ADR"), revenue per available room ("RevPAR"), gross operating profit ("GOP"), hotel operating income ("HOI"), funds from operations ("FFO") and distributable income ("DI").

Regional performance

On a same hotel basis, InnVest experienced above average RevPAR growth of 18.8% in western Canada with Alberta posting the highest gains (22.6%). The Atlantic region hotels posted RevPAR improvement of 4.6%. In Ontario and Québec, where the majority of InnVest's hotels are located, posted a RevPAR gain of 0.2% and 1.2% respectively.

InnVest's Key Performance Measures

Note: Measures related to room revenues are on a same hotel basis, excluding the hotels that have been classified as discontinued operations and the hotels acquired in the second and third quarters of 2006 for which comparative data is not available.

Three months ended March 31	2007	2006	Var %
Occupancy			
Ontario	55.4%	56.3%	(1.6)%
Québec	54.2%	54.9%	(1.3)%
Atlantic	51.1%	50.9%	0.4 %
Western	59.1%	53.8%	9.9 %
Total	55.2%	55.1%	0.2 %
ADR			
Ontario	\$ 101.49	\$ 99.66	1.8 %
Québec	\$ 89.50	\$ 87.18	2.7 %
Atlantic	\$ 84.16	\$ 80.87	4.1 %
Western	\$ 80.89	\$ 74.87	8.0 %
Total	\$ 94.52	\$ 92.13	2.6 %
RevPAR			
Ontario	\$ 56.23	\$ 56.12	0.2 %
Québec	\$ 48.50	\$ 47.90	1.3 %
Atlantic	\$ 43.03	\$ 41.15	4.6 %
Western	\$ 47.84	\$ 40.27	18.8 %
Total	\$ 52.19	\$ 50.78	2.8 %

On a same hotel basis, the REIT's hotels, posted a RevPAR improvement of 2.8% for the three months ended March 31, 2007 over the same period in the previous year. This increase was achieved through a 2.6% or \$2.39 increase in ADR and a 0.2% increase in occupancy.

InnVest's Geographical Performance Comparison

Note: Measured on a same hotel basis for the three months ended March 31, 2007.

RevPAR % Growth by Geographical Regions

	InnVest Portfolio	Canadian Market	Variance
Ontario	0.2%	2.4%	(2.2)%
Québec	1.3%	0.4%	0.9 %
Atlantic	4.6%	8.2%	(3.6)%
Western	18.8%	12.7%	6.8 %
Canada	2.8%	6.7%	(3.9)%

InnVest underperformed the market in Ontario and the Atlantic region and outperformed the market in Québec and the Western region in terms of increases in RevPAR. InnVest underperformed the market in Ontario because it owns a disproportionate amount of the hotels in soft markets such as Windsor and Oshawa and is not represented in Niagara Falls where a RevPAR increase of 20.1% was achieved. In the Atlantic region strong growth was experienced in

Management's discussion and analysis

Newfoundland where the REIT only owns two hotels. InnVest underperformed the Canadian market by 3.9% in RevPAR growth partially because of its geographical distribution with relatively few hotels located in the Western region even though InnVest's outperformed the market in the Western region.

Recent Industry Performance

The Canadian hotel industry fundamentals remained strong in the first quarter of 2007. According to PKF Consulting, advisors to the Canadian hotel industry, occupancy and ADRs for the three months ended March 31, 2007 experienced 1.1 points and 4.6% growth respectively resulting in RevPAR growth of 6.1% for the period.

InnVest's strategy and objectives

InnVest's Operating Strategy and Objectives

InnVest's operating strategy and objectives remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Acquisition Strategy and 2007 Activity

InnVest continued to pursue acquisition opportunities in the first quarter entering into a contract to purchase three hotels with a total of 348 rooms for a combined purchase price of \$48.2 million plus transaction costs. The transaction to acquire these new build hotel properties will close in stages as the construction of each hotel is completed, which is scheduled during the third quarter. The hotels include two 116 room Staybridge Suites located in London and Guelph, Ontario and a 116 room Holiday Inn Express located in North Bay, Ontario.

These acquisitions will continue to increase the InnVest's participation in the mid-scale with food and beverage segment and further launch InnVest into the extended stay segment of the market with the Staybridge Suites brand.

It is anticipated that these acquisitions will be funded through cash on hand, refinancing proceeds and new mortgage financing proceeds.

Divestiture Strategy

InnVest monitors the operating performance of its individual assets on an ongoing basis. From time to time, certain assets are identified that may not support one or more of InnVest's objectives. Such assets may provide unstable or decreasing net operating income levels, which in turn affects InnVest's ability to maintain stable and growing cash distributions to its unitholders. Also, the retention of certain assets may be inconsistent with InnVest's objective of maximizing the long-term asset value of the portfolio.

Such a condition may exist where it is believed that further capital investment in an asset will not provide increases in net operating income sufficient to maintain or grow cash distributions. In addition, certain assets may not contribute to the proposition of long-term value appreciation given both the current and future market characteristics and the business environment. Overall, when assets are identified that do not support certain primary objectives of the REIT, an analysis is conducted to decide if the divestiture of such assets is in the best interest of unitholders. Such an analysis takes into consideration the implications for distributable income and overall diversification, market conditions and numerous other factors.

At the end of December 31, 2006 two hotels were classified as held for sale. One of these hotels was sold at the end of the first quarter of 2007, while the second hotel was sold early in the second quarter of 2007. An accounting gain of \$659 was recorded in the first quarter and no further loss is expected to be recorded in the second quarter.

InnVest's Competitive Strengths

InnVest's competitive strengths remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

InnVest's operating results

Below is a comparison of the operating results for the three months ended March 31, 2007 to the results of operations for the comparable period of 2006.

Three months ended March 31	2007	2006
Hotel revenues	\$ 90,026	\$ 75,905
Hotel expenses	72,403	59,326
Hotel operating income	17,623	16,579
Net income (loss) from continuing operations	\$ 106,692	\$ (5,461)
Net income (loss) from continuing operations		
per unit – basic	\$ 1.931	\$ (0.114)
per unit – diluted	\$ 1.686	\$ (0.114)
Net income (loss) from discontinued operations	\$ 640	\$ (100)
Net income (loss) and comprehensive income (loss)	\$ 107,332	\$ (5,561)
Add / (deduct)		
Depreciation, amortization and accretion ⁽¹⁾	13,750	11,254
Future income tax recovery	(115,536)	(222)
Non-cash executive and trustee compensation	88	91
Gain on sale of assets held for sale	(659)	–
Corporate reorganization expense	1,471	–
Funds from operations ⁽²⁾	\$ 6,446	\$ 5,562
Funds from operations per unit ⁽³⁾		
– basic and diluted	\$ 0.117	\$ 0.114
Amortization of deferred financing costs	726	573
Reserve for replacement of furniture, fixtures and equipment and capital improvements (“FF&E Reserve”)	(3,620)	(3,055)
Convertible debentures accretion	212	180
Deferred land lease expense and retail lease income, net	14	25
Distributable income ⁽²⁾	\$ 3,778	\$ 3,285
Distributable income per unit ⁽³⁾		
– basic and diluted	\$ 0.068	\$ 0.067
Distributions ⁽⁴⁾	\$ 15,580	\$ 13,869
Distributions – per unit ⁽⁴⁾	\$ 0.2813	\$ 0.2813
Reconciliation of Cash flow from operating activities to Distributable income		
Cash flow from operating activities	\$ 2,095	\$ 9,034
Changes in non-cash working capital	4,066	(2,719)
Changes in non-cash working capital – discontinued operations	(248)	–
Corporate reorganization expense	1,471	–
Reserve for replacement of furniture, fixtures and equipment and capital improvements (“FF&E Reserve”)	(3,620)	(3,055)
Deferred land lease expense and retail lease income, net	14	25
Distributable income ⁽²⁾	\$ 3,778	\$ 3,285

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

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

(3) Funds from operations and distributable income per unit amounts have been calculated on a basis consistent with that prescribed by GAAP for calculating earnings per unit.

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

Management's discussion and analysis

Operating results review – three months ended March 31, 2007

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue earned from hotel operations fluctuate throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest because leisure travel tends to be lower. The results from operations vary materially from quarter to quarter because of the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, depreciation and amortization, corporate and administrative are fixed or virtually fixed.

Hotel Operating Results Comparison

In summarizing the hotel operating results for the three months ended March 31, 2007 and comparing those results to the three months ended March 31, 2006, the REIT has categorized 128 of its 130 hotels owned for the entire current and comparative period as its "Base Portfolio" with the remaining two hotels being classified as discontinued operations. All the hotels acquired in 2006 are categorized as the "2006 Acquisitions".

Hotel Revenues

A summary of the hotel revenue categorized by room revenue and non-room revenue for the three months ended March 31, 2007 and 2006 are stated below:

	2007	2006	Variance
Room Revenue			
Base Portfolio	\$ 66,869	\$ 65,070	\$ 1,799
2006 Acquisitions	8,190	54	8,136
Sub-total	\$ 75,059	\$ 65,124	\$ 9,935
Non-Room Revenue			
Base Portfolio	\$ 10,886	\$ 10,780	\$ 106
2006 Acquisitions	4,081	1	4,080
Sub-total	\$ 14,967	\$ 10,781	\$ 4,186
Hotel Revenue			
Base Portfolio	\$ 77,755	\$ 75,850	\$ 1,905
2006 Acquisitions	12,271	55	12,216
Total	\$ 90,026	\$ 75,905	\$ 14,121

Overall Hotel Portfolio

In the first quarter hotel revenue increased by \$14.1 million, with \$12.2 million of the increase was due to the hotels acquired in 2006. The Base Portfolio of 128 hotels contributed \$1.9 million of the increase, which represents a 2.5% improvement over the same period in the prior year. All of the 2006 Acquisitions were acquired prior to the end of the third quarter of 2006, with one hotel acquired on March 3, 2006, two Hiltons on April 28, 2006, two Deltas on May 25, 2006 and the two remaining Hiltons on September 19, 2006.

The increase of \$9.9 million in room revenues for the three months ended March 31, 2007 reflects \$8.1 million in revenues from the hotels acquired in 2006. The balance of \$1.8 million improvement reflects an overall increase in room revenue of 2.8% in the Base Portfolio. There were increases in all geographical regions, with the largest dollar and percentage increase experienced in the Western region.

Room Revenues

A geographical comparison of the room revenue variance between the three months ended March 31, 2007 and 2006, excluding the assets classified as discontinued operations are as follows:

	Hotels	Rooms	As a % of total	Room Revenue variance	As a % of total	Var % over 2006
Base Portfolio						
Ontario	67	7,986	51.6%	\$ 81	0.8%	0.2%
Québec	29	2,719	17.6%	147	1.5%	1.3%
Atlantic	17	1,482	9.6%	264	2.7%	4.6%
Western	15	1,919	12.4%	1,307	13.1%	18.8%
Sub-total	128	14,106	91.2%	1,799	18.1%	2.8%
2006 Acquisitions	7	1,370	8.8%	8,136	81.9%	–
Total	135	15,476	100.0%	\$ 9,935	100.0%	15.3%

InnVest's base portfolio of Western hotels achieved the largest percentage growth of 18.8%, along with the largest dollar increase of \$1.3 million, while the Ontario hotels achieved a modest growth of \$81 or 0.2% in room revenues relative to the same period in 2006. The Ontario hotels located in the Greater Toronto Area ("GTA") posted room revenue increases of 5.2%, while the Ontario hotels outside of the GTA experienced a decline of 1.8% over the same period in 2006. The Ontario markets outside of the GTA which contributed positively to the results for the three-month period were Ottawa (\$533 or 11.9%) and Sudbury (\$175 or 10.2%). The markets that contributed negatively to the room revenue results in the period were Windsor (\$492 or 32.7%) as the result of Detroit hosting the Super Bowl in 2006, Oshawa (\$415 or 14.5%) as the result of reduced activity in local automotive manufacturing and new competition and Burlington-Oakville (\$110 or 3.4%), mainly as the result of a decline in occupancy caused by new competition.

InnVest's base portfolio of hotels in Québec experienced a room revenue increase of \$147 or 1.3%. The REIT's rural Québec hotels improved by \$168 or 4.6%, while the REIT's Montréal and Québec City each posted modest declines.

InnVest's base portfolio of Atlantic region hotels experienced growth of \$264 or 4.6% from the same period in 2006, with gains in Nova Scotia and New Brunswick being partially offset by declines in Newfoundland and Prince Edward Island.

InnVest's Base Portfolio of Western hotels continued to experience significant revenue growth posting an increase of \$1.3 million or 18.8% over the same period in the prior year. The majority of the gains were posted by the hotels located in Alberta (\$966 or 22.6%). This increase was attributable to occupancy improvements and room rate increases related to economic activity generated by the oil and gas industry. InnVest's hotels located in Manitoba posted improvements of \$163 or 20.2%, as the result of Winnipeg hosting the 2007 Women's World Hockey Championships in March.

Non-Room Revenues

Non-room revenues increased by \$4.2 million, primarily reflecting the non-room revenues generated by the hotels the REIT acquired in 2006, which were not owned for the comparative period. The majority of the hotels which were acquired in 2006 generate a higher proportion of total revenues from non-room revenues such as food and beverage sales.

Management's discussion and analysis

Hotel Operating Income Margin Analysis

The following chart illustrates the REIT's margins for the Base Portfolio and the 2006 Acquisitions, excluding the assets classified as discontinued operations, for the three months ended March 31, 2007 and 2006:

2007	Base Portfolio	2006 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 77,755	\$ 12,271	\$ 90,026
Hotel expenses			
Operating expenses	49,635	10,253	59,888
Property taxes, rent and insurance	8,743	728	9,471
Management fees	2,626	418	3,044
	61,004	11,399	72,403
Hotel operating income	\$ 16,751	\$ 872	\$ 17,623
HOI margin	21.5%	7.1%	19.6%
2006	Base Portfolio	2006 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 75,850	\$ 55	\$ 75,905
Hotel expenses			
Operating expenses	48,086	34	48,120
Property taxes, rent and insurance	8,637	8	8,645
Management fees	2,559	2	2,561
	59,282	44	59,326
Hotel operating income	\$ 16,568	\$ 11	\$ 16,579
HOI margin	21.8%	20.0%	21.8%
Variance	Base Portfolio	2006 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 1,905	\$ 12,216	\$ 14,121
Hotel expenses			
Operating expenses	1,549	10,219	11,768
Property taxes, rent and insurance	106	720	826
Management fees	67	416	483
	1,722	11,355	13,077
Hotel operating income	\$ 183	\$861	\$ 1,044
HOI margin	(0.3)%	(12.9)%	(2.2)%

(1) The 2006 Acquisitions represent hotels acquired in 2006 that were not owned for the entire comparative period.

Total hotel operating income margin decreased by 2.2 points, which can be mainly attributed to the impact of seasonality impact on the 2006 Acquisitions, which were acquired in the second and third quarters of 2006 and the resulting lower margins experienced for the 2006 Acquisitions relative to the Base Portfolio. The 2006 Acquisitions generate a larger portion of their business in the non-room categories that typically yield lower margins and are subject to a higher level of fixed costs which increase the impact of seasonality on operating income. The Base Portfolio's operating margin decreased by 0.3 points as the result of an increase in energy costs which caused operating expenses to increase at a slightly higher rate than the percentage revenue increases.

Hotel Expenses

Hotel expenses for the three months ended March 31, 2007 increased by \$13.1 million or 22.0% when compared to the same period in 2006. This increase reflects \$11.4 million in expenses incurred in the hotels acquired in 2006, which with the exception of one hotel for a few days, were not owned for any of the comparative period.

Hotel Operating Income

Hotel operating income (“HOI”) for the three months ended March 31, 2007 improved by \$1.0 million to \$17.6 million. This was a result of an increase in hotel revenues of \$14.1 million less an overall increase in hotel expenses of \$13.1 million. The Base Portfolio achieved \$183 or 17.5% of this increase, with the balance attributed to the hotels acquired in 2006.

A geographical comparison of the HOI variance between the three months ended March 31, 2007 and 2006 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2006
Base Portfolio						
Ontario	67	7,986	51.6%	\$ (342)	(32.8)%	(3.3)%
Québec	29	2,719	17.6%	(294)	(28.2)%	(10.2)%
Atlantic	17	1,482	9.6%	159	15.2%	12.6%
West	15	1,919	12.4%	660	63.2%	32.4%
Sub-total	128	14,106	91.2%	183	17.5%	1.1%
2006 Acquisitions	7	1,370	8.8%	861	82.5%	—
Total	135	15,476	100.0%	\$ 1,044	100.0%	5.1%

The increase of \$861 in HOI arising from the acquired hotels contributed 82.5% of the overall HOI increase of \$1.0 million. In the Base Portfolio, increases in HOI were experienced in two out of four regions with the largest dollar and percentage increase achieved in the Western region at \$660 and 32.4%.

Other Income and Expenses

The net amount of other income and expenses for the three months ended March 31, 2007 was \$26.5 million, \$4.3 million or 19.3% more than the same period in 2006. The main contributors to this increase were a \$2.0 million increase in depreciation, amortization and accretion, a \$1.8 million increase in interest on mortgages, a \$1.5 million increase in corporate and administrative expenses, a \$562 increase in other business income and a \$387 reduction in capital tax. The increases were mainly related to the hotels acquired during 2006, while the corporate and administrative expense increase was the result of land transfer tax and legal costs associated with a reorganization of InnVest, the increase in convertible debentures interest, accretion and amortization was the result of the amortization of costs associated with the issuing of the debenture because of the use of the effective interest method and the reduction in capital tax was the result of the corporate reorganization completed on January 2, 2007.

Income Taxes

Current income tax expense for the three months ended March 31, 2007 was zero because of the elimination of the large corporation tax, a decrease of \$70 from the same period expense in 2006. Further, InnVest experienced a \$115.5 million future income tax recovery during the quarter as the result of the corporate reorganization of InnVest completed on January 2, 2007, which eliminated certain corporate subsidiaries of InnVest.

In 2006, 40.5% of the distributions made during that year were not taxable to unitholders. For calendar 2007, the REIT estimates that approximately 40% of unitholder distributions will not be taxable to unitholders.

Management's discussion and analysis

Net Income (loss) from Continuing Operations

InnVest's net income from continuing operations was \$106.7 million or \$1.931 per unit basic (\$1.686 – diluted), compared with a net loss in the prior year's period of \$5.5 million or \$0.114 per unit basic and diluted. The improvement of \$112.2 million is the net result of the reversal of the future income tax liability of \$115.5 million, improvements in hotel operating income and the increase in other income and expense discussed above.

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

The REIT currently calculates FFO by using net income and adjusting for:

- i) Depreciation, amortization and accretion, excluding amortization of deferred financing costs,
- ii) Future income tax expense or recovery,
- iii) Non-cash executive and trustee compensation expense,
- iv) Gain or write down of assets held for sale, and
- v) Corporate restructuring expense.

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

FFO for the three months ended March 31, 2007 increased \$884 to \$6.4 million or \$0.117 per unit basic and diluted from \$5.6 million or \$0.114 per unit basic and diluted in the same period of 2006.

Distributable Income

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

Distributable income is intended to approximate cash earnings. It is defined in the REIT's Declaration of Trust to mean net income of the REIT and its consolidated subsidiaries as reported in its consolidated financial statements adjusted for:

- i) Depreciation, amortization and accretion and future income tax expense,
- ii) Any gains or losses on the disposition of any real property and any future income tax benefits,
- iii) The reserve for replacement of furniture, fixtures and equipment and capital improvements ("FF&E reserve"), and
- iv) Any other adjustment determined by a majority of the Trustees of the REIT in their discretion.

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

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

Distributable income for the three months ended March 31, 2007 was \$3.8 million or \$0.068 per unit basic and diluted. This reflects a \$493 improvement over the distributable income experienced for the same period of the prior year of \$3.3 million or \$0.067 per unit basic and diluted.

Changes in Financial Condition

The following discussion evaluates the cash flow results of InnVest from operating, financing and investing activities for the three months ended March 31, 2007.

Operating Activities

Funds generated from operating activities decreased \$6.9 million to \$2.1 million for the three months ended March 31, 2007. The increase is mainly attributable to an increase in hotel operating income of \$1.0 million less a net increase in interest expense on mortgages and convertible debentures of \$1.0 million and an increase in corporate and administrative expense of \$1.5 million, plus combined improvements in other business income and other income and current income and capital taxes of \$1.1 million, plus an decrease of \$6.9 million in changes in non-cash working capital.

Financing Activities

Funds provided through financing activities were \$1.9 million for the three months ended March 31, 2007 compared to funds used of \$6.2 million for the same period in 2006. The majority of the change relates to:

- An increase of \$9.5 million in bank indebtedness;
- Net increase in the repayment of long-term debt of \$246;
- An increase in the repayment of debt on discontinued operations of \$1.0 million;
- Decrease in deferred financing costs incurred of \$469; and
- Increase in cash distributions of \$477.

Investing Activities

Funds used for investing activities were \$3.3 million during the three months ended March 31, 2007 compared to \$7.3 million in the same period in 2006. The majority of the change relates to:

- Decrease in cash used in costs related to hotel acquisition, hotel under development and other assets of \$2.8 million;
- Sale of discontinued assets of \$2.1 million;
- Increase in capital expenditures of \$1.2 million; and
- Use of \$2.3 million in cash restricted for future furniture, fixtures and equipment and capital expenditures versus \$1.7 million in the prior period.

In the three months ended March 31, 2007, InnVest spent \$5.9 million on capital items (2006 – \$4.7 million).

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

Management's discussion and analysis

Liquidity and capital resources

Financial Commitments

The following chart summarizes InnVest's future contractual obligations as at March 31, 2007:

	Remainder of 2007	2008	2009	2010	2011	2012 and thereafter	Total
Mortgages payable – principal	\$ 8,437	\$ 5,789	\$ 8,030	\$ 149,386	\$ 53,568	\$ 274,823	\$ 500,033
Mortgages payable – interest	22,575	29,199	28,776	24,201	18,030	41,417	164,198
Capital lease – principal	221	130	138	146	155	1,383	2,173
Capital lease – interest	104	234	235	239	239	537	1,588
Convertible debentures – principal	–	–	–	–	51,340	75,000	126,340
Convertible debentures – interest	7,709	7,709	7,709	7,709	6,104	6,750	43,690
Long-term land leases	1,634	2,203	2,203	1,743	1,743	83,889	93,415
Operating equipment leases	349	441	362	221	55	15	1,443
	\$ 41,029	\$ 45,705	\$ 47,453	\$ 183,645	\$ 131,234	\$ 483,814	\$ 932,880

The next material refinancing was scheduled to occur in 2008 when \$147.7 million of long-term debt with a weighted average interest rate of 7.4% matures. During the first quarter, InnVest entered into an early extension of this mortgage debt. Subsequent to March 31, 2007 the REIT completed this early extension of \$147.7 of mortgage debt that was to have matured on July 26, 2008, fixing the interest rate on \$130 million at 5.8% for a blended interest rate of 6.17% per annum for a period of seven years and maintained floating rate debt of \$17.7 million, which at current rates bears interest at approximately 6.3% per annum. As part of this early extension, InnVest increased its proceeds by \$25.9 million, which were used to repay the operating loan balance and to fund acquisitions.

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

Distributions to Unitholders

The following chart illustrates the distributable income that the REIT has generated relative to cash distributions paid to unitholders for the twelve months ended March 31, 2007 and for the years ended December 31, 2006, 2005, 2004 and 2003, the period ended December 31, 2002 and the cumulative period from the REIT's inception on July 26, 2002 to March 31, 2007:

	12 months ended March 31, 2007	Years ended December 31			December 31, 2003	Period ended inception to 2002 ⁽¹⁾	Cumulative since March 31, 2007
		2006	2005	2004			
Distributable income ⁽²⁾	\$ 63,264	\$ 62,771	\$ 48,721	\$ 44,269	\$ 39,455	\$ 25,263	\$ 224,257
Distributions	61,316	59,605	52,884	50,164	46,280	20,000	244,513
Distributable income in excess of (less than) distributions	1,948	3,166	(4,163)	(5,895)	(6,825)	5,263	(20,256)
Non-cash distributions made through the distribution reinvestment plan ("DRIP")	5,476	4,166	3,303	3,168	1,367	–	14,195
Distributable income in excess of (less than) cash distributions	\$ 7,424	\$ 7,332	\$ (860)	\$ (2,727)	\$ (5,458)	\$ 5,263	\$ (6,061)
Payout ratios:							
Total distributions	96.9%	95.0%	108.5%	113.3%	117.3%	79.2%	109.0%
Cash distributions (total distributions minus DRIP)	88.3%	88.3%	101.8%	106.2%	113.8%	79.2%	102.7%

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

(2) Distributable income is calculated after deducting 4% of total hotel revenues as a reserve for future furniture, fixtures and equipment and capital expenditures.

The REIT's trailing twelve month payout ratio increased slightly by 1.9% points from 95.0% at December 31, 2006 to 96.9% as a result of the seasonality impact on the hotels acquired after the end of the first quarter in 2006. On a cash basis, the ratio remained constant at 88.3% because of increased participation in the DRIP program. On a cumulative basis from the inception of the REIT on July 26, 2002, the payout ratio has been 109.0% or 102.7% on a cash basis. Liquidity to fund distributions is generated from cash flow from operations, cash on hand, bank operating lines available and by the ability to finance certain unencumbered or under-leveraged assets.

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

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

Management's discussion and analysis

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

Capital Resources

The REIT's cash position at March 31, 2007 was \$7.7 million, of which \$2.4 million is restricted under the REIT's trust indenture for the replacement of furniture, fixtures, and equipment and for capital improvements.

InnVest sets aside 4% of total hotel revenue for replacing furniture, fixtures and equipment and capital improvements. Capital expenditures committed and yet to be incurred at March 31, 2007 were \$2.6 million. The current expectation is that capital spending on the hotel portfolio will be approximately \$24 million for the year ending December 31, 2007.

The following chart shows the changes in the restricted cash balance for the three months ended March 31, 2007 along with the comparable period:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Opening balance	\$ 4,693	\$ 6,079
4% of revenues	3,620	3,055
Initial reserve – Hotels Acquired	–	–
Capital expenditures	(5,940)	(4,728)
Closing balance	\$ 2,373	\$ 4,406

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 book value. InnVest calculates indebtedness in accordance with GAAP excluding non-interest bearing indebtedness, trade accounts payable, and any future income tax liability. InnVest calculates gross book value as the total book value of assets on the REIT's balance sheet, plus the amount of accumulated depreciation and amortization, less any future income tax liabilities. Further, the REIT is permitted to have indebtedness and convertible debentures up to a level of 60% of gross asset value. At March 31, 2007, the REIT's leverage excluding and including convertible debentures was 37.7% and 46.8% respectively.

The REIT also had unused operating loan availability of \$3.0 million at March 31, 2007 and eight hotel properties which remain unencumbered. The REIT estimates that the unencumbered hotels could generate approximately \$45 million in mortgage proceeds. The REIT also has an unused acquisition facility of \$40 million available to acquire hotel properties and an unused loan facility of \$29.1 million available to fund capital expenditures.

During the three months ended March 31, 2007, the REIT distributed \$15.6 million or \$0.2813 per unit, of which \$2.2 million was distributed in units as part of the Distribution Reinvestment Plan ("DRIP"), at the rate of \$0.09375 per unit per month. A regular monthly distribution of \$0.09375 per unit for the month of March 2007 was paid in April 2007. A distribution at the same rate for April 2007 was declared and will be payable on May 15, 2007.

InnVest expects to make cash distributions based on cash flow to be generated from operations and its borrowing capacity. Future growth is expected to be funded from borrowing capacity and through the issuance of trust units.

Equity

At March 31, 2007 a total of 55,611,910 units of the REIT were outstanding. There is only one class of trust units, with each unit eligible for one vote. For the three months ended March 31, 2007 and subsequent, units of the REIT were issued as follows:

	Units	Amount
Balance at December 31, 2006	55,045,351	\$ 543,363
<i>First quarter activity of Units issued</i>		
DRIP	160,050	2,191
Executive compensation plan	20,139	275
Trustee compensation plan	1,650	27
Conversion of debentures	384,720	4,908
Balance at March 31, 2007	55,611,910	\$ 550,764
<i>Activity subsequent to March 31, 2007</i>		
DRIP	67,494	905
Conversion of debentures	344,240	4,303
Balance at May 9, 2007	56,023,644	\$ 55,617,118

A total of \$51.3 million of the Series A – 6.25% Debentures remained outstanding at March 31, 2007. These debentures are convertible into trust units at a strike price of \$12.50, bear interest at 6.25% per annum payable semi-annually on April 15 and October 15 of each year and are due April 15, 2011. Subsequent to March 31, 2007 a total of \$4.3 million were converted into 344,240 units of the REIT. The trust units to be issued upon conversion of the Series A – 6.25% Debentures outstanding at March 31, 2007 are 4,107,200. A total of \$4.8 million in Series A – 6.25% Debentures were converted into 384,720 units during the quarter.

A total of \$75 million of the Series B – 6.00% Debentures remained outstanding at March 31, 2007. The Series B – 6.00% Debentures are convertible into trust units at a strike price of \$14.90, bear interest at 6.00% per annum payable semi-annually on May 31 and November 30 of each year and are due May 31, 2013. The trust units to be issued upon conversion of the Series B – 6.00% Debentures total 5,033,557.

Risks and uncertainties

InnVest's risks and uncertainties remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Proposed Tax Changes to Income Trusts

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. Except for corporate subsidiaries of InnVest, no provision for income taxes is required under the current Canadian income tax legislation.

The REIT obtained the requisite approval of unitholders at the annual and special meeting of unitholders held on May 17, 2006 to effect a proposed reorganization (the "Reorganization"). In the fourth quarter of 2006, the REIT received an advanced ruling from the Canada Revenue Agency in respect of the Reorganization. The Reorganization was completed on January 2, 2007 and \$115.4 million of the future income tax liability was reduced and included in net income and comprehensive income for the three months ended March 31, 2007.

On March 29, 2007, the Minister of Finance Canada tabled in the House of Commons a Bill that contained legislation to implement a previously announced proposal for the federal income taxation of publicly traded trusts, including income trusts (the "Bill"). The Bill would apply to publicly traded trusts which existed prior to November 1, 2006

Management's discussion and analysis

starting with taxation years ending in or after 2011, except for those existing trusts that qualify for the real estate investment trust ("Qualifying REIT") exception included in the legislation. There are certain circumstances where an existing trust may lose its relief in the interim periods to 2011 where it undergoes "undue expansion".

The Bill contemplates that a REIT which carries on Canadian hotel operations (including through subsidiaries) will not be a Qualifying REIT. Accordingly, the Bill, if passed in its current form, could adversely affect the level of cash distribution to unitholders commencing in 2011 if InnVest does not become a Qualifying REIT by then. Unless the Bill is amended prior to being enacted in a manner that will accommodate the holding of REIT-related hotel operations, InnVest will become subject to tax under the proposals.

Should the third reading of the Bill pass and be substantially enacted, all or substantially all of the adjustment made in this quarter to the future income tax liability may be reversed through the net income and comprehensive income statement and a further adjustment may be required to record approximately \$27 million in additional future income tax liability in respect of assets and liabilities of the REIT, where income is taxed directly in the hands of the unitholders and the book value for accounting purposes of those net assets exceeds their tax basis.

Management is reviewing whether it is feasible to reorganize InnVest so that non-qualifying operations and assets are transferred under a plan of arrangement to a taxable entity that is held by InnVest unitholders, and the InnVest hotels, which continue to be owned by it, are leased by it to the taxable entity. It is not possible at this preliminary juncture to provide any assurances that any such reorganization or a similar reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to InnVest and its unitholders.

Outlook

Hotel operations for the first quarter typically achieve below average operating results because of the seasonality inherent in the Canadian hotel industry and as such generate below average cash flow. InnVest achieved a modest increase in funds from operations and distributable income. Further increases are expected for the remainder of the year as InnVest approaches the higher cash generating second and third quarters and we benefit from the hotels acquired in the second and third quarters of 2006.

The Canadian hospitality industry is performing as anticipated with RevPAR growth in all regions and particularly strong growth in western provinces. PKF Consulting Inc., ("PKF") lodging industry experts continue to forecast a 4% increase in RevPAR in 2007 due to the growth in demand continuing to outpace supply. Accordingly, InnVest is expecting growth within its base portfolio and from its 2006 Acquisitions.

InnVest expects to benefit from the anticipated growth in the hospitality industry, our ability to manage costs, our ability to capitalize on acquisition opportunities and re-financing activities completed in the second quarter.

Significant accounting policies

Related Party Transactions

Franchise Business

InnVest owns 50% of Choice Canada. The other 50% is owned by Choice Hotels International, which is one of the largest hotel franchise companies in the world. Choice Canada earns franchise revenue by charging monthly royalty fees to licenced hotel owners based on a percentage the licenced hotels' revenue and by selling franchises. Under the terms of the joint venture agreement between Choice Hotels International and a subsidiary of the REIT, InnVest pays a below market royalty fee for its hotels that are franchised under the Choice hotel brands. This arrangement will remain in place for the duration of the joint venture until 2092. Royalty payments paid to Choice Canada by the REIT on a net basis for the three months ended March 31, 2007 totaled \$136.

Hotel Management

On July 26, 2002, the REIT entered into a management agreement for hotel management and accounting services and an administrative services agreement (“the Agreements”) with Westmont. Westmont is controlled by a minority unitholder of the REIT. The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire July 25, 2012. The Agreements are subject to non-competitive arrangements for limited service hotels in Canada. The Agreements provide for the payment of an annual management fee to Westmont equal to 3.375% of gross hotel revenue during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of \$1.25 per unit. No management incentive fees were paid in the three months ended March 31, 2007.

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

Total management fees paid to the hotel manager for the three months ended March 31, 2007 was \$3.6 million.

Hedging Transactions

InnVest’s hedging transactions remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Critical Accounting Estimates

There have been no changes in InnVest’s critical accounting estimates since December 31, 2006 and management is not anticipating any significant changes for the remainder of the year. A description of the REIT’s significant accounting policies is summarized in Note 2 to the consolidated financial statements.

Changes in Significant Accounting Policies

Comprehensive Income

Effective January 1, 2007, the REIT adopted the new CICA recommendations under Section 1530 that comprehensive income includes net earnings and other comprehensive income (“OCI”), which represents changes in the unitholders’ equity during a period arising from transactions and other events with non-owners sources. The standard requires prospective application and accordingly, comparative amounts for prior periods, if any, have not been restated. As at March 31, 2007, there is no difference between the REIT’s Consolidated Statement of Net Income (Loss) and Statement of Comprehensive Income (Loss).

Financial Instruments

Effective January 1, 2007, the REIT adopted several new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments and Measurement. All 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. This standard requires a prospective application and accordingly, comparative amounts for prior periods, if any, have not been restated.

Management's discussion and analysis

As a result of implementing this Section, the REIT has recorded the interest expense for both the mortgage debt and convertible debentures, using the effective interest method ("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, therefore the deferred financing costs which were related to these instruments were re-classed to the appropriate debt on the balance sheet. The amortization of these costs is included in interest expense in the financial statements, in a manner that yields a constant rate of interest over the life of the respective financial instrument, for the three months ended March 31, 2007. An adjustment has been made to the opening cumulative net income in the amount of \$654 to reflect the application of the EIM.

In accordance with Section 3855, the REIT conducted a search for embedded derivatives in all contractual arrangements dated subsequent to October 31, 2002 and identified embedded features that required separate presentation, but they have zero fair value.

With the introduction of the new standards relating to financial instruments – Section 3251, that establishes standards for the presentation of equity and changes in equity during the reporting period, the equity is presented as accumulated net income (loss) and other comprehensive income (loss), distributions and total deficit.

Controls and Procedures

Internal Controls over Financial Reporting

The REIT did not make any changes to its internal controls over financial reporting during the three months ended March 31, 2007, that have materially affected, or are reasonably likely to affect those controls. However, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The inherent limitations in all controls systems ensure that no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgment could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of material errors.

Additionally controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Forward-looking information

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

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

Consolidated balance sheets

(in thousands of dollars)

March 31, 2007

December 31, 2006

(Unaudited)

Assets

Current Assets

Cash	\$	5,319	\$	4,531
Accounts receivable		13,274		13,242
Prepaid expenses and other assets		12,037		5,627
Assets held for sale (Note 19)		49		42

		30,679		23,442
Restricted cash		2,373		4,693
Hotel properties (Note 3)		1,130,887		1,136,730
Other real estate properties (Note 4)		16,842		16,933
Licence contracts (accumulated amortization \$6,164; December 31, 2006 – \$5,835)		20,156		20,485
Other assets (Note 5)		10,902		19,067
Assets held for sale (Note 19)		4,125		5,566
	\$	1,215,964	\$	1,226,916

Liabilities

Current Liabilities

Bank indebtedness (Note 6)	\$	22,000	\$	3,300
Accounts payable and accrued liabilities		43,556		41,515
Distributions payable		5,214		5,161
Current portion of long-term debt (Note 7)		11,352		11,434
Liabilities related to assets held for sale (Note 19)		394		139

		82,516		61,549
Long-term debt (Note 7)		485,210		490,998
Other long-term obligations (Note 8)		4,458		4,535
Convertible debentures (Note 9)		117,488		126,339
Future income tax liability (Note 10)		9,223		124,759
Long-term debt related to assets held for sale (Note 19)		1,171		2,191

Unitholders' equity

		700,066		810,371
		515,898		416,545
	\$	1,215,964	\$	1,226,916

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

Consolidated statements of net income (loss) and comprehensive income (loss)

(in thousands of dollars, except per unit amounts) (Unaudited)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
		(Restated) (Note 19)
Total revenues (reference only) (Note 17)	\$ 92,081	\$ 76,777
Hotel revenues	\$ 90,026	\$ 75,905
Hotel expenses		
Operating expenses (Note 15)	59,888	48,120
Property taxes, rent and insurance	9,471	8,645
Management fees (Note 15)	3,044	2,561
	72,403	59,326
Hotel operating income	17,623	16,579
Other (income) and expenses		
Interest on mortgages	8,804	7,022
Convertible debentures interest and accretion	2,427	2,442
Corporate and administrative	2,567	1,073
Capital tax	24	411
Other business income, net (Note 18)	(1,048)	(486)
Other income	(57)	(15)
Depreciation, amortization and accretion	13,750	11,745
	26,467	22,192
Loss before income tax (recovery) expense	(8,844)	(5,613)
Income tax (recovery) expense (Note 10)		
Current	-	70
Future	(115,536)	(222)
	(115,536)	(152)
Net income (loss) from continuing operations	106,692	(5,461)
Loss from discontinued operations (Note 19)	(19)	(100)
Gain on sale of assets held for sale (Note 19)	659	-
	640	(100)
Net income (loss) and comprehensive income (loss)	\$ 107,332	\$ (5,561)
Net income (loss) from continuing operations, per unit (Note 13)		
Basic	\$ 1.931	\$ (0.114)
Diluted	\$ 1.686	\$ (0.114)
Net income (loss) per unit (Note 13)		
Basic	\$ 1.943	\$ (0.114)
Diluted	\$ 1.696	\$ (0.114)
Net income from discontinued operations, per unit		
Basic	\$ 0.012	\$ -
Diluted	\$ 0.010	\$ -

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

Consolidated statements of unitholders' equity

(in thousands of dollars) (Unaudited)	Accumulated Net Income (Loss) and Comprehensive Income (Loss)	Distributions	Deficit	Units in \$	Executive and Trustee Compensation	Holders' Conversion Option	Total
Balance December 31, 2005	\$ 57,033	\$(169,328)	\$(112,295)	\$464,164	\$ 186	\$ 5,588	\$357,643
Changes during the period							
Net loss and comprehensive loss	(5,561)	-	(5,561)	-	-	-	(5,561)
Unit distributions (Note 14)	-	(13,869)	(13,869)	-	-	-	(13,869)
Distribution reinvestment							
plan units issued	-	-	-	881	-	-	881
Conversion of debentures (Note 9)	-	-	-	14,173	-	(539)	13,634
Vested executive compensation	-	-	-	152	(152)	-	-
Executive and trustee compensation	-	-	-	30	61	-	91
Balance March 31, 2006	\$ 51,472	\$(183,197)	\$(131,725)	\$479,400	\$ 95	\$ 5,049	\$352,819
Balance December 31, 2006	\$ 95,629	\$(228,933)	\$(133,304)	\$543,363	\$ 278	\$ 6,208	\$416,545
Change in accounting policy for financial instruments (Note 2)							
	654	-	654	-	-	-	654
Balance January 1, 2007	\$ 96,283	\$(228,933)	\$(132,650)	\$543,363	\$ 278	\$ 6,208	\$417,199
Changes during the period							
Net income and comprehensive income							
	107,332	-	107,332	-	-	-	107,332
Unit distributions (Note 14)	-	(15,580)	(15,580)	-	-	-	(15,580)
Distribution reinvestment							
plan units issued	-	-	-	2,191	-	-	2,191
Conversion of debentures (Note 9)	-	-	-	4,908	-	(240)	4,668
Vested executive compensation	-	-	-	275	(275)	-	0
Executive and trustee compensation	-	-	-	27	61	-	88
Balance March 31, 2007	\$203,615	\$(244,513)	\$(40,898)	\$550,764	\$ 64	\$5,968	\$ 515,898

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

Consolidated statements of cash flows

(in thousands of dollars) (Unaudited)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
		(Restated) (Note 19)
Operating activities		
Net income (loss) from continuing operations	\$ 106,692	\$ (5,461)
Add (deduct) items not affecting operations		
Depreciation, amortization and accretion	13,112	10,947
Amortization of other assets and deferred financing	638	798
Non-cash portion of interest expense	726	–
Future income tax recovery	(115,536)	(222)
Non-cash executive and trustee compensation	88	91
Convertible debentures accretion	212	180
Discontinued operations	229	(100)
Changes in non-cash working capital	(4,066)	2,801
	2,095	9,034
Financing activities		
Repayment of long-term debt and other obligations	(2,399)	(2,153)
Unit distributions	(13,336)	(12,859)
Increase in bank indebtedness	18,700	9,200
Discontinued operations – repayment of debt	(1,020)	(11)
Deferred financing	–	(469)
Changes in non-cash working capital related to financing activities	–	107
	1,945	(6,185)
Investing activities		
Capital expenditures on hotel properties	(5,940)	(4,724)
Discontinued operations – capital expenditures	–	(4)
Hotel under development	(894)	–
Sale of discontinued assets	2,100	–
Other assets	(411)	(823)
Acquisition of hotel properties	–	(3,274)
Changes in restricted cash	2,320	1,673
Collection of vendor-take-back mortgage	–	200
Changes in non-cash working capital related to investing activities	(427)	(383)
	(3,252)	(7,335)
Increase (decrease) in cash during the period	788	(4,486)
Cash, beginning of period	4,531	5,893
Cash, end of period	\$ 5,319	\$ 1,407
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,796	\$ 7,179
Cash paid for income taxes (including capital tax)	\$ 69	\$ 425

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

Notes to consolidated financial statements

March 31, 2007 (all dollar amounts are in thousands, except unit and per unit amounts)

Note 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 March 31, 2007, the REIT owned 136 Canadian hotels with 15,592 guest rooms operated under international brands and has a 50% interest in Choice Hotels Canada Inc. (“CHC”).

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The accounting principles used in these financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2006, except as disclosed in Note 2. These financial statements do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements.

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

Note 2. Changes in Accounting Policies

The accounting policies followed in preparation of these financial statements are consistent with those as set out in the audited financial statements for the year ended December 31, 2006, except as follows:

Comprehensive Income

Effective January 1, 2007, the REIT adopted the new CICA recommendations under Section 1530 that comprehensive income includes net earnings and other comprehensive income (“OCI”), which represents changes in the unitholders’ equity during a period arising from transactions and other events with non-owners sources. The standard requires prospective application and accordingly, comparative amounts for prior periods, if any, have not been restated. As at March 31, 2007, there is no difference between the REIT’s Consolidated Statement of Net Income (Loss) and Statement of Comprehensive Income (Loss).

Financial Instruments – Recognition and Measurement

Effective January 1, 2007, the REIT adopted several new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments and Measurement. All 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. This standard requires a prospective application and accordingly, comparative amounts for prior periods, if any, have not been restated.

As a result of implementing this Section, the REIT has recorded the interest expense for both the mortgage debt and convertible debentures, using the effective interest method (“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, therefore the deferred financing costs which were related to these instruments were re-classified to the appropriate debt on the balance sheet. The amortization of these costs is included in interest expense in the financial statements, in a manner that yields a constant rate of interest over the life of the respective financial instrument, for the three months ended March 31, 2007. An adjustment has been made to the opening cumulative net income in the amount of \$654 to reflect the application of the EIM.

Notes to consolidated financial statements

In accordance with Section 3855, the REIT conducted a search for embedded derivatives in all contractual arrangements dated subsequent to October 31, 2002 and identified embedded features that required separate presentation, but they have zero fair value.

With the introduction of the new standards relating to financial instruments – Section 3251, that establishes standards for the presentation of equity and changes in equity during the reporting period, the equity is presented as accumulated net income (loss) and other comprehensive income (loss), distributions and total deficit.

Note 3. Hotel Properties

	Cost	Accumulated Depreciation	March 31, 2007 Net Book Value	December 31, 2006 Net Book Value
Land	\$ 94,824	\$ –	\$ 94,824	\$ 94,623
Buildings	1,089,100	107,308	981,792	987,415
Furniture, fixtures and equipment	117,247	64,212	53,035	54,350
	\$ 1,301,171	\$ 171,520	\$ 1,129,651	\$ 1,136,388
Hotel under development	1,236	–	1,236	342
	\$ 1,302,407	\$ 171,520	\$ 1,130,887	\$ 1,136,730

Note 4. Other Real Estate Properties

	Cost	Accumulated Depreciation	March 31, 2007 Net Book Value	December 31, 2006 Net Book Value
Land	\$ 1,675	\$ –	\$ 1,675	\$ 1,675
Buildings	15,447	329	15,118	15,220
Furniture, fixtures and equipment	59	10	49	38
	\$ 17,181	\$ 339	\$ 16,842	\$ 16,933

Other real estate includes office and retail properties and a retirement residence, which were acquired during the year ended December 31, 2006.

Note 5. Other Assets

	Cost	Accumulated Amortization	March 31, 2007 Net Book Value	December 31, 2006 Net Book Value
Deferred financing (Note 2)	\$ –	\$ –	\$ –	\$ 7,938
Other assets	13,810	2,908	10,902	11,129
	\$ 13,810	\$ 2,908	\$ 10,902	\$ 19,067

In accordance with the new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments and Measurement, the unamortized balance of deferred financing costs were reallocated as a reduction to long-term debt and convertible debentures effective January 1, 2007.

Note 6. Bank Indebtedness

The REIT has a \$25,000 operating loan facility that bears interest at Canadian bank prime plus 0.5% or Canadian Bankers' Acceptance rate plus 1.5%. It is secured by nine properties and is payable on demand. At March 31, 2007, the REIT had drawn \$22,000 on this facility (December 31, 2006 – \$3,300).

Note 7. Long-term Debt

	March 31, 2007	December 31, 2006
Mortgages payable	\$ 500,033	\$ 502,432
Less current portion	(11,352)	(11,434)
Total long-term debt	488,681	490,998
Less deferred financing, net	(3,471)	–
Net long-term debt	\$ 485,210	\$ 490,998

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At March 31, 2007, long-term debt had a weighted average interest rate of 6.5% (December 31, 2006 – 6.5%) and a weighted average effective interest rate of 6.9%. The long-term debt is repayable in average monthly payments of principal and interest totalling \$3,496 (December 31, 2006 – \$3,495) per month, and matures at various dates from April 28, 2007 to September 1, 2015.

In accordance with the new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments and Measurement, the unamortized balance of deferred financing costs were reallocated from long-term assets as a reduction to long-term debt effective January 1, 2007.

Scheduled repayment of long-term debt is as follows:

2007 (remainder of the year)	\$ 8,437
2008	5,789
2009	8,030
2010	149,386
2011	53,568
2012 and thereafter	274,823
	\$ 500,033

The current portion of long-term debt on the balance sheet is based on the year ending March 31, 2008, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of the REIT's long-term debt at March 31, 2007 was approximately \$504,115 (December 31, 2006 – \$507,243). This estimate was determined by discounting expected cash flows at the interest rates currently being offered to the REIT for debt of the same remaining maturities.

Long-term debt includes \$67,904 (December 31, 2006 – \$68,305) of mortgages payable which are subject to floating interest rates. Interest expense will increase by \$679 for every 1% increase in the base Bankers' Acceptance rate.

Note 8. Other Long-term Obligations

	March 31, 2007	December 31, 2006
Capital lease	\$ 1,858	\$ 1,861
Other lease obligations	314	299
	2,172	2,160
Less current portion (included in accounts payable and accrued liabilities)	(214)	(207)
Total long-term obligations	1,958	1,953
Pension liability	1,116	1,212
Asset retirement obligation	1,384	1,370
Total other long-term obligations	\$ 4,458	\$ 4,535

Notes to consolidated financial statements

Defined Benefit Pension Plans

The defined benefit pension plan was assumed pursuant to the hotels acquired in 2006. The most recent actuarial valuation with respect to the funding of the REIT's pension plans was prepared on March 31, 2007. The pension plan assets and liabilities as at March 31, 2007 consist of the following:

	Management Pension Benefit Plans	Non-Union Non-Management Pension Benefit Plans	March 31, 2007 Total Benefit Plans	December 31, 2006 Total Benefit Plans
Accrued benefit obligation	\$ 2,423	\$ 1,593	\$ 4,016	\$ 3,873
Fair value of plan assets	1,756	1,144	2,900	2,661
Funded status – plan deficit	667	449	1,116	1,212
Unamortized net actuarial gain	196	145	341	167
Accrued employee future benefit liability	\$ 863	\$ 594	\$ 1,457	\$ 1,379

Note 9. Convertible Debentures

The details of the two 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	Deferred Financing	March 31, 2007
Series A	April 15, 2011	6.25%	7.07%	\$ 57,500	\$ (6,160)	\$ 51,340	\$ (2,567)	\$ 915	\$ (1,464)
Series B	May 31, 2013	6.00%	6.79%	75,000	–	75,000	(3,400)	382	(2,718)
				\$ 132,500	\$ (6,160)	\$ 126,340	\$ (5,967)	\$ 1,297	\$ (4,182)

Debenture	Maturity Date	Interest Rate	Original Face Amount	Converted to Trust Units	Face Amount Outstanding	Holders' Conversion Option	Accretion	December 31, 2006
Series A	April 15, 2011	6.25%	\$ 57,500	\$ (1,351)	\$ 56,149	\$ (2,808)	\$ 1,096	\$ 54,437
Series B	May 31, 2013	6.00%	75,000	–	75,000	(3,400)	302	71,902
			\$ 132,500	\$ (1,351)	\$ 131,149	\$ (6,208)	\$ 1,398	\$ 126,339

Note 10. Income Taxes and Future Income Tax Liability

Future income taxes are the result of temporary differences between tax bases of assets and liabilities and their carrying amounts for accounting purposes. Such temporary differences are then measured using substantively enacted tax rates that will be in effect when these differences are expected to reverse.

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. Except for corporate subsidiaries of InnVest, no provision for income taxes is required under the current Canadian income tax legislation.

The REIT obtained the requisite approval of unitholders at the annual and special meeting of unitholders held on May 17, 2006 to effect a proposed reorganization (the "Reorganization"). In the fourth quarter of 2006, the REIT received an advanced ruling from the Canada Revenue Agency in respect of the Reorganization. The Reorganization was completed on January 2, 2007 and \$115,431 of the future income tax liability was reduced and included in net income for the three months ended March 31, 2007.

On March 29, 2007, the Minister of Finance Canada tabled in the House of Commons a Bill that contained legislation to implement a previously announced proposal for the federal income taxation of publicly traded trusts, including income trusts (the “Bill”). The Bill would apply to publicly traded trusts which existed prior to November 1, 2006 starting with taxation years ending in or after 2011, except for those existing trusts that qualify for the real estate investment trust (“Qualifying REIT”) exception included in the legislation. There are certain circumstances where an existing trust may lose its relief in the interim periods to 2011 where it undergoes “undue expansion”.

The Bill contemplates that a REIT which carries on Canadian hotel operations (including through subsidiaries) will not be a Qualifying REIT. Accordingly, the Bill, if passed in its current form, could adversely affect the level of cash distribution to unitholders commencing in 2011 if InnVest does not become a Qualifying REIT by then. Unless the Bill is amended prior to being enacted in a manner that will accommodate the holding of REIT-related hotel operations, InnVest will become subject to tax under the proposals.

Should the third reading of the Bill pass and be substantively enacted, all or substantially all of the \$115,431 adjustment made in this quarter to the future income tax liability may be reversed through the statement of net income and comprehensive income and a further adjustment may be required to record approximately \$27,000 in additional future income tax liability in respect of assets and liabilities of the REIT, where income is taxed directly in the hands of the unitholders and the book value for accounting purposes of those net assets exceeds their tax basis.

Management is reviewing whether it is feasible to reorganize InnVest so that non-qualifying operations and assets are transferred under a plan of arrangement to a taxable entity that is held by InnVest unitholders, and the InnVest hotels, which continue to be owned by it, are leased by it to the taxable entity. It is not possible at this preliminary juncture to provide any assurances that any such reorganization or a similar reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to InnVest and its unitholders.

Note 11. Commitments

During the quarter, InnVest entered into a contract to purchase three hotels with a total of 348 rooms for a combined purchase price of \$48,200 plus transaction costs. The transaction to acquire these new build hotel properties will close in stages as the construction of each hotel is completed which is scheduled during the third quarter. The hotels include two 116 room Staybridge Suites located in London and Guelph, Ontario and a 116 room Holiday Inn Express located in North Bay, Ontario.

Note 12. Unitholders' Equity

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

	Units	Amount
Balance as at December 31, 2005	47,961,163	\$ 464,164
Units issued under distribution reinvestment plan	73,444	881
Units issued on conversion of debentures	1,318,416	14,173
Units issued for vested executive compensation	12,218	152
Units issued under trustee compensation plan	2,418	30
Balance at March 31, 2006	49,367,659	\$ 479,400
Balance at December 31, 2006	55,045,351	543,363
Units issued on conversion of debentures	384,720	4,908
Units issued under distribution reinvestment plan	160,050	2,191
Units issued for vested executive compensation	20,139	275
Units issued under trustee compensation plan	1,650	27
Balance at March 31, 2007	55,611,910	\$ 550,764

Notes to consolidated financial statements

Trustee Compensation Plan

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then current market price of the units). The REIT has set aside 100,000 units in reserve for this purpose. The balance in this reserve account at March 31, 2007 is 52,428 units. Under the Trustee Compensation Plan, 1,650 units were issued during the three months ended March 31, 2007 (March 31, 2006 – 2,418 units).

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 March 31, 2007 is 854,215 units. A unit granted through the plan entitles the holder to receive, on the vesting date, the then current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into REIT units. The payment will be satisfied through the issuance of units.

The following table summarizes the status of the executive compensation plan at March 31, 2007, excluding granted units which have fully vested:

	Unvested Executive units	Units Accumulated from Distributions	Total Units
January 1, 2004 – granted	10,218	3,488	13,706
January 1, 2005 – granted	13,118	2,933	16,051
January 1, 2006 – granted	12,968	1,498	14,466
January 1, 2007 – granted	15,000	304	15,304
January 1, 2007 – units vested	(5,109)	(1,675)	(6,784)
	46,195	6,548	52,743

On March 30, 2007, the Board of Trustees approved the granting of 15,000 units effective as of January 1, 2007. These 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. Unitholders who so elect will receive a further bonus distribution of units equal in value to 3% of each distribution that was reinvested.

Note 13. Per Unit Information

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
	Weighted Average Units		Weighted Average Units	
				(Restated, Note 18)
Net income (loss) from				
continuing operations – basic	\$ 106,692	55,253,435	\$ (5,461)	48,938,787
Convertible debentures	2,427	9,409,094	–	–
Dilutive effect of executive compensation plan	–	52,234	–	52,575
Net income (loss) from				
continuing operations – diluted	\$ 109,119	64,714,763	\$ (5,461)	48,991,362

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
		Weighted Average Units		Weighted Average Units
Net income (loss) and comprehensive income (loss) – basic	\$ 107,332	55,253,435	\$ (5,561)	48,938,787
Convertible debentures	2,427	9,409,094	–	–
Dilutive effect of executive compensation plan	–	52,234	–	52,575
Net income (loss) and comprehensive income (loss) – diluted	\$ 109,759	64,714,763	\$ (5,561)	48,991,362

All of the convertible debentures have been included in the per unit calculations above.

Note 14. 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 per unit has been calculated on a basis consistent with that prescribed by Canadian GAAP for calculating earnings per unit.

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 4% of hotel revenues, for the reserve for the replacement of furniture, fixtures and equipment and capital improvements, the accretion on convertible debentures that is included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net income (loss) and comprehensive income (loss)	\$ 107,332	\$ (5,561)
Add (deduct)		
Depreciation, amortization and accretion	13,750	11,827
Non-cash portion of interest expense	726	–
Future income tax recovery	(115,536)	(222)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(3,620)	(3,055)
Convertible debentures accretion	212	180
Corporate reorganization costs	1,471	–
Non-cash executive and trustee compensation	88	91
Deferred land lease expense and retail lease income, net	14	25
Gain on asset held for sale	(659)	–
	(103,554)	8,846
Distributable income	3,778	3,285
Distributions in excess of distributable income	11,802	10,584
Distributions	\$ 15,580	\$ 13,869

Note 15. Management Agreements

On July 26, 2002, the REIT entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements") with Westmont Hospitality Canada Limited ("Westmont"). Westmont manages all but four of the REIT's hotels. The total management fees paid to other parties for the three months ended March 31, 2007 is \$286 (March 31, 2006 – \$nil).

The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval of the REIT. The Agreements will expire July 25, 2012. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross revenues during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income (Note 14) 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.

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

During the three months ended March 31, 2007 and 2006, the fees charged to the REIT pursuant to the Agreements were as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Fees from continuing operations:		(Restated, Note 19)
Management fees	\$ 2,680	\$ 2,560
Asset management fees (included in hotel operating expenses)	78	–
Accounting services (included in hotel operating expenses)	572	556
Administrative services (included in corporate and administrative expenses)	105	139
Project management and general contractor services (capitalized to hotel properties)	160	143
Fees from discontinued operations	22	23
	\$ 3,617	\$ 3,421

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT were \$35 (March 31, 2006 – \$39). Included in accounts payable and accrued liabilities are amounts outstanding at March 31, 2007 totalling \$1,480 (December 31, 2006 – \$1,076).

Note 16. Segmented Financial Information

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

	Western	Ontario	Québec	Atlantic	Total
Three Months Ended					
March 31, 2007					
Hotel revenues	\$ 8,985	\$ 51,092	\$ 21,671	\$ 8,278	\$ 90,026
Hotel expenses	6,290	40,671	18,589	6,853	72,403
Hotel operating income	\$ 2,695	\$ 10,421	\$ 3,082	\$ 1,425	\$ 17,623
Three Months Ended					
March 31, 2006					
(Restated, Note 18)					
Hotel revenues	\$ 7,677	\$ 49,274	\$ 12,544	\$ 6,410	\$ 75,905
Hotel expenses	5,642	38,880	9,659	5,145	59,326
Hotel operating income	\$ 2,035	\$ 10,394	\$ 2,885	\$ 1,265	\$ 16,579
Capital expenditures					
Three Months Ended					
March 31, 2007					
	\$ 373	\$ 4,113	\$ 903	\$ 551	\$ 5,940
Three Months Ended					
March 31, 2006					
(Restated, Note 18)					
	\$ 285	\$ 3,660	\$ 358	\$ 421	\$ 4,724
Hotel properties					
March 31, 2007	\$ 72,572	\$ 678,549	\$ 264,481	\$ 115,285	\$ 1,130,887
December 31, 2006	\$ 73,233	\$ 681,290	\$ 266,140	\$ 116,067	\$ 1,136,730

Note 17. Total Revenues

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Hotel revenues	\$ 90,026	\$ 75,905
Other business revenues (Note 18)	2,055	872
	\$ 92,081	\$ 76,777

Note 18. Other Business Income

	Franchise Business	Retail/ Office	Retirement Residence	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Revenues	\$ 1,063	\$ 724	\$ 268	\$ 2,055	\$ 872
Expenses	481	346	180	1,007	386
Other business income, net	\$ 582	\$ 378	\$ 88	\$ 1,048	\$ 486

Other business income includes Franchise Business Income, which is InnVest's 50% share of Choice Canada's operations and the income from the other real estate properties acquired with the Québec Deltas during the year ended December 31, 2006.

Notes to consolidated financial statements

Note 19. Assets Held for Sale and Discontinued Operations

On April 18, 2006, the REIT reclassified one Ontario hotel property to assets held for sale. At September 30, 2006, the REIT reclassified a second hotel property, in Atlantic Canada, to assets held for sale.

On March 30, 2007, the REIT sold the hotel held for sale in Atlantic Canada, and recorded a gain of \$659. The debt owing of \$1,010 was paid out of the proceeds. Subsequent to the completion of the quarter, on April 10, 2007, the Ontario asset held for sale was sold. This asset was written down to its fair market value in 2006. The debt owing of \$1,171 was paid in full from proceeds of the sale. The operations for these two hotels are included as discontinued operations as summarized below.

Discontinued operations for the three months ended March 31, 2007 and 2006 are as follows:

	2007	2006
Hotel revenues	\$ 441	\$ 461
Hotel expenses		
Operating expenses	358	376
Property taxes, rent and insurance	49	50
Management fees	15	16
	422	442
Hotel operating income	19	19
Interest on mortgages	38	37
Depreciation and amortization	–	82
	38	119
Loss from discontinued operations	(19)	(100)
Gain on sale of assets held for sale	659	–
Net income (loss) from discontinued operations	\$ 640	\$ (100)

Note 20. Subsequent Events

Long-Term Debt Extension

Subsequent to March 31, 2007, the REIT completed an early extension of \$147,665 of mortgage debt that was to have matured on July 26, 2008, fixing the interest rate on \$130,000 at 5.8%, for a blended interest rate of 6.17% per annum for a period of seven years and maintained floating rate debt of \$17,665, which at current rates bears interest at approximately 6.2% per annum.



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Stock Exchange Listing

The Toronto Stock Exchange
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