

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and, subject to certain exceptions, may not be offered or sold in the United States. See "Plan of Distribution". This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of InnVest Real Estate Investment Trust at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9, telephone (905) 206-7100, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## SHORT FORM PROSPECTUS

New Issue

February 20, 2013



### INNVEST REAL ESTATE INVESTMENT TRUST

## \$100,000,000 5.75% Convertible Unsecured Subordinated Debentures

This short form prospectus qualifies the distribution of \$100,000,000 aggregate principal amount of 5.75% convertible unsecured subordinated debentures, Series G (the "Debentures") of InnVest Real Estate Investment Trust ("InnVest") at a price of \$1,000 per Debenture (the "Offering").

|                      | <b>Price:</b>                            | <b>\$1,000 per Debenture</b>           |  |
|----------------------|--|--|--|
|                      | <b>Price to the Public<sup>(1)</sup></b> | <b>Underwriters' Fee<sup>(2)</sup></b> | <b>Net Proceeds to InnVest<sup>(3) (4)</sup></b> |
| Per Debenture .....  | <b>\$1,000</b>                           | <b>\$37.50</b>                         | <b>\$962.50</b>                                  |
| Total Offering ..... | <b>\$100,000,000</b>                     | <b>\$3,750,000</b>                     | <b>\$96,250,000</b>                              |

Notes:

- (1) The offering price for the Debentures was established through negotiation between InnVest and the Underwriters (as defined below).
- (2) The Underwriters' fee is equal to 3.75% of the gross proceeds of the Offering.
- (3) Before deducting expenses of the Offering estimated at \$350,000. The Underwriters' fee and the other expenses of the Offering will be paid from the proceeds of the Offering. See "Use of Proceeds" and "Plan of Distribution".
- (4) InnVest has granted to the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional \$15,000,000 aggregate principal amount of Debentures (being 15% of the aggregate principal amount of the Debentures issued) at a price of \$1,000 per Debenture on the same terms and conditions as the Offering, exercisable in whole or in part, at the sole discretion of the Underwriters at any time up until 30 days after closing of the Offering for the purpose of covering the Underwriters' over-allocation position. If the Over-Allotment Option is exercised in full, the total price to the public will be \$115,000,000, the total Underwriter's Fee will be \$4,312,500 and the net proceeds to the Company, before deducting the expenses of the Offering, will be \$110,687,500. See "Plan of Distribution". This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of Debentures pursuant to the exercise of the Over-Allotment Option. A purchaser who acquires Debentures forming part of the Underwriters' over allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The following table sets forth the number of Debentures issuable pursuant to the exercise of the Over-Allotment Option:

| <b>Underwriters' Position</b> | <b>Maximum Size</b> | <b>Exercise Period</b>   | <b>Exercise Price</b> |
|-------------------------------|---------------------|--|-----------------------|
| Over-Allotment Option         | 15,000 Debentures   | Up to and including the 30th day following the closing of the Offering | \$1,000 per Debenture |

The Debentures bear interest at an annual rate of 5.75% payable semi-annually in arrears on March 31 and September 30 in each year, commencing September 30, 2013, and will mature on March 31, 2019 (the "Maturity Date"). The first interest payment will include interest accrued from the date of closing of the Offering, but excluding September 30, 2013. See "Description of the Debentures". Each Debenture is convertible into freely-tradable units ("Units") of InnVest at the option of the holder at any time prior to 4:00 p.m. (Toronto time) on the earlier of March 29, 2019 (the business day immediately preceding the Maturity Date) and the last business day immediately preceding the date specified by InnVest for redemption

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of the Debentures, at a conversion price of \$5.80 per Unit (the “**Conversion Price**”), being a conversion rate of 172.4138 Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Except in limited circumstances, holders converting their Debentures will receive accrued and unpaid interest on such debentures, if any, for the period from the last interest payment date (or the date of the closing of the Offering if no interest has yet been paid by InnVest) to and including the last record date declared by InnVest for determining holders of Units (“**Unitholders**”), entitled to receive distributions on the Units. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events are set out under “Description of the Debentures — Conversion Rights”. **A holder of Debentures will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such debentures. See “Certain Canadian Federal Income Tax Considerations”.**

The Debentures are not redeemable on or prior to March 31, 2016. On or after April 1, 2016 and prior to March 31, 2018, the Debentures may be redeemed by InnVest in whole or in part, on not less than 30 days’ prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Toronto Stock Exchange (“**TSX**”) (or other principal market if not then listed on the TSX) for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after April 1, 2018 and prior to March 31, 2019 the Debentures may be redeemed by InnVest at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. See “Description of Debentures — Redemption Rights”.

Subject to any required regulatory approvals, InnVest may, at its option, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures that are to be redeemed or that have matured, on not more than 60 days’ and not less than 30 days’ prior notice, by delivering that number of freely-tradable Units obtained by dividing the principal amount of the Debentures that are to be redeemed or that have matured, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX or other principal market for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as applicable (the “**Unit Repayment Election**”). See “Description of the Debentures — Method of Payment”.

The Debentures are being offered pursuant to an underwriting agreement (the “**Underwriting Agreement**”) dated February 12, 2013 between InnVest and RBC Dominion Securities Inc. (“**RBCDS**”), BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc. and Canaccord Genuity Corp. (collectively, the “**Underwriters**” and each an “**Underwriter**”).

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by InnVest and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of InnVest by Davies Ward Phillips & Vineberg LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP. In connection with the Offering, the Underwriters may, subject to applicable laws, over-allot or effect transactions intended to stabilize or maintain the market price for the Debentures at levels above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. The Underwriters propose to offer the Debentures initially at the offering price specified above. **After a reasonable effort has been made to sell all of the Debentures at the price specified above, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Debentures remaining unsold. Any such reduction will not affect the proceeds received by InnVest. See “Plan of Distribution”.**

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is expected to occur on or about February 27, 2013 or such later date as InnVest and the Underwriters may agree, but in any event not later than March 6, 2013. Registration and transfers of Debentures and Units issuable upon conversion, redemption or maturity of the Debentures, will be effected only through the book-based system administered by CDS Clearing and Depository Services Inc. (“**CDS**”). Beneficial owners of Debentures or Units will not, except in limited circumstances, be entitled to receive a physical certificate evidencing their ownership of Debentures or Units. See “Description of the Debentures — Book-Based System” and “Description of the Units — Book-Based System”.

The outstanding Units are listed on the TSX under the symbol “INN.UN”. On February 5, 2013 (prior to the public announcement of the Offering), the closing price of the Units on the TSX was \$4.33. **There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See “Risk Factors”.** The

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TSX has conditionally approved the listing of the Debentures. The listing is subject to InnVest fulfilling all of the listing requirements of the TSX on or before May 13, 2013.

**An affiliate of RBCDS is a lender to InnVest under the Bridge Loan (as defined herein) and the Credit Line (as defined herein). Certain affiliates of the Underwriters have provided and may provide in the future investment banking, commercial banking and other financial services to InnVest for which they have received or will receive compensation. The net proceeds from the Offering will be used to repay InnVest's Series B 6.00% convertible unsecured subordinated debentures and the balance for general working capital purposes, which may include funding of InnVest's capital improvement program as contemplated in the Strategic Plan. Accordingly, InnVest may be considered to be a "connected issuer" of RBCDS within the meaning of applicable Canadian securities legislation. See "Relationship Between InnVest and Certain Underwriters".**

**Investing in the Debentures involves risks. The risk factors identified under the heading "Risk Factors" in this short form prospectus should be carefully reviewed and evaluated by prospective purchasers before purchasing the securities being offered hereunder.**

InnVest is an unincorporated open-ended real estate investment trust governed by its declarations of trust and the laws of the Province of Ontario. **InnVest is not a trust company and neither is registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that Act or any other legislation.**

**InnVest's earnings coverage ratios, on a *pro forma* basis after giving effect to the issuance of the Debentures and the repayment of certain indebtedness, are less than one-to-one. See "Earnings Coverage".**

Although InnVest intends to make distributions of a portion of its available cash to Unitholders, these cash distributions are not assured. A return on an investment in Units in the event a holder converts Debentures into Units in accordance with their terms, is not comparable to the return on an investment in a fixed-income security. The ability of InnVest to make cash distributions and the actual amount distributed will be dependent upon numerous factors, including the financial performance of InnVest, seasonal fluctuations in operating results, InnVest's debt covenants and obligations, InnVest's working capital requirements, InnVest's future capital requirements, InnVest qualifying as a "real estate investment trust" (a "REIT") for Canadian income tax purposes and the redemption of Units, if any. The market value of the Units may deteriorate if InnVest is unable to maintain current levels of cash distributions in the future, and that deterioration may be material. See "Risk Factors".

The return on a Unit is subject to Canadian income tax. The Canadian income tax consequences to Unitholders who are Canadian residents will depend, in part, on the composition for tax purposes of distributions paid by InnVest, portions of which may be fully or partially taxable or may constitute tax deferred distributions which are not subject to tax at the time of receipt but reduce a Unitholder's adjusted cost base in the Units for Canadian income tax purposes. That composition may change over time, thus affecting a Unitholder's after-tax return. The Income Tax Act (Canada), as amended (together with the Income Tax Regulations, the "Tax Act") contains provisions providing for tax on certain income earned by a "specified investment flow-through" trust or partnership (a "SIFT"), as well as taxing the taxable distributions received by investors from such entities as taxable dividends (the "SIFT Rules"). Subject to the application of the SIFT Rules discussed under the heading "Certain Canadian Federal Income Tax Considerations", distributions of the net income of InnVest are generally taxed in the hands of a Unitholder as ordinary income while distributions in excess of the net income of InnVest are generally tax-deferred (and reduce the Unitholder's adjusted cost base in the Unit for tax purposes). Distributions of income and returns of capital to a Unitholder that is not resident in Canada for purposes of the Tax Act or is a partnership that is not a "Canadian partnership" for purposes of the Tax Act may be subject to Canadian withholding tax. The SIFT Rules do not apply to certain entities, such as trusts, that qualify as a REIT under an exception to the application of the SIFT Rules. Management of InnVest believes, based on InnVest's valuation and measurement of its different categories of assets and revenues under the tests pertaining to the REIT exception taking into account certain proposed legislation that has been substantively enacted for accounting purposes (the "REIT Exception"), that InnVest qualified for the REIT Exception in 2012. There can be no assurances that that such proposed legislation will be passed in its current form or InnVest will qualify for the REIT Exception for Canadian income tax purposes for 2013 and subsequent taxation years. Prospective Unitholders should consult their own tax advisors with respect to the Canadian income tax considerations applicable in their circumstances. See "Certain Canadian Federal Income Tax Considerations".

The registered and head office InnVest is located at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9.

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### ELIGIBILITY FOR INVESTMENT

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to InnVest, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, provided that InnVest qualifies as a mutual fund trust under the Tax Act, and the Units are listed on a designated stock exchange in Canada on the date of closing of the Offering, the Debentures, as at that date, will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans (“RRSPs”), registered retirement income funds (“RRIFs”), registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts (“TFSA”), each as defined in the Tax Act (“Exempt Plans”). Units acquired under the terms of the Debentures, if issued on the date of closing of the Offering and provided InnVest qualifies as a mutual fund trust on such date, would be qualified investments under the Tax Act for Exempt Plans.

Notwithstanding the foregoing, if the Debentures, or Units acquired on the exercise of a Debenture, are a “prohibited investment” (as defined in the Tax Act) for a trust governed by a TFSA, RRSP or RRIF, the holder or annuitant thereof will be subject to a penalty tax as set out in the Tax Act. The Debentures, and such Units, will not be a prohibited investment for a TFSA, RRSP or RRIF provided the holder or annuitant of such Exempt Plan, as the case may be, (i) deals at arm’s length with InnVest, for purposes of the Tax Act, (ii) does not have a “significant interest” (as defined in the Tax Act) in InnVest, and (iii) does not have a “significant interest” (as defined in the Tax Act) in a corporation, partnership or trust with which InnVest does not deal at arm’s length. Generally, a holder or annuitant will have a significant interest in InnVest if the holder or annuitant and/or persons not dealing at arm’s length with the holder or annuitant own, directly or indirectly, units of InnVest representing 10% or more of the fair market value of all units of InnVest. The Minister of Finance (Canada) released draft legislation on December 21, 2012 (the “December 2012 Proposals”) that proposes to delete the condition in (iii) above. In addition, pursuant to the December 2012 Proposals, Units will not be a “prohibited investment” if the Units are “excluded property” as defined in the December 2012 Proposals for trusts governed by a TFSA, RRSP and RRIF. Prospective purchasers who intend to hold Units in a TFSA, RRSP or RRIF are advised to consult their personal tax advisors.

## MEANING OF CERTAIN REFERENCES

In this short form prospectus, references to InnVest include its subsidiaries where the context requires. References to dollars or “\$” are to Canadian currency.

## NON-IFRS FINANCIAL MEASURES

InnVest issues guidance on and reports on certain non-IFRS (as defined herein) measures, including “gross operating profit”, “funds from operations” and “Distributable Income” that it uses to evaluate its operating performance and measure its ability to earn and distribute cash returns to Unitholders. Because non-IFRS measures do not have a standardized meaning as prescribed by IFRS and may differ from those used by other issuers, securities regulations require that non-IFRS measures be clearly defined and qualified, reconciled with their nearest IFRS measure and given no more prominence than the closest IFRS measure. Such information is presented below and in the sections dealing with these financial measures in the documents incorporated by reference herein.

“Gross operating profit” means revenues less hotel, other real estate properties and franchise expense and reflects results of operations from InnVest’s various business segments: hotel ownership, franchise business and other real estate assets.

“Funds from operations” is a common measure of performance in the real estate investment trust industry. InnVest calculates funds from operations by using net income and adjusting for: (i) depreciation, amortization and accretion, excluding amortization of deferred financing costs; (ii) deferred income tax expense or recovery; (iii) non-cash writedown of assets held for sale as well as the impairment provision on hotel properties; (iv) non-cash effect of certain equity-based financial instruments classified as financial liabilities under IFRS (includes distributions treated as interest expense and changes to fair value each reporting period); and (v) non-recurring costs that may impact cash flow.

“Distributable Income” means net income of InnVest as set out in its consolidated financial statements determined in accordance with IFRS, subject to certain adjustments set out in the Declaration of Trust (as defined herein), including the adding back of depreciation and amortization, amortization of fair value debt adjustments, the non-cash portion of interest on mortgages and convertible debentures and deferred income tax expenses, excluding any gains or losses on the disposition of real property, and deferred income tax benefits and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements and any other adjustments determined by the trustees of InnVest in their discretion.

## NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus, including the documents incorporated by reference herein, contains forward-looking statements, including statements regarding InnVest’s objectives, its strategies to achieve those objectives, as well as other statements with respect to management’s beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances and performance or expectations that are not historical facts. Forward-looking statements are typically identified with words such as “outlook”, “objective”, “may”, “continue”, “anticipate”, “believe”, “expect”, “estimate”, “plan”, “intend”, “forecast”, “project” or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management’s current beliefs and are based on information currently available to management.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on InnVest’s estimates and assumptions, which are subject to risks and uncertainties, including those described under “Risk Factors” in this short form prospectus and in the documents incorporated by reference herein. Reference is also made to the disclosure concerning forward-looking statements in the documents incorporated by reference herein.

When relying on forward-looking statements to make decisions, InnVest cautions readers not to place undue reliance on these statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, which may cause InnVest’s actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others: changes in business strategies; general global economic and business conditions; general global credit market conditions; the effects of competition and pricing pressures; industry overcapacity; shifts in market

demands; changes in laws and regulations, including environmental and regulatory laws; the status of InnVest as a REIT for Canadian income tax purposes; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations; technological changes; and those factors discussed in the section entitled “Risk Factors” in this short form prospectus. InnVest does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of InnVest, except as required by Canadian securities laws.

### DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with the securities commissions or similar regulatory authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of InnVest at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9, telephone (905) 206-7100, and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents, filed with the securities commissions or similar regulatory authorities in Canada, are specifically incorporated by reference in, and form an integral part of, this short form prospectus:

- (i) the annual information form of InnVest dated March 23, 2012 for the year ended December 31, 2011 (the “**AIF**”);
- (ii) the audited consolidated financial statements of InnVest for the year ended December 31, 2011, together with the notes thereto and the auditors’ report thereon (the “**Annual Financial Statements**”);
- (iii) management’s discussion and analysis of the consolidated financial condition and results of operations of InnVest for the year ended December 31, 2011 (the “**Annual MD&A**”);
- (iv) the unaudited condensed consolidated financial statements of InnVest for the three and nine months ended September 30, 2012, together with the notes thereto (the “**Third Quarter Financial Statements**”);
- (v) management’s discussion and analysis of the condensed consolidated financial condition and results of operations of InnVest for the three and nine months ended September 30, 2012 (the “**Third Quarter MD&A**”);
- (vi) the management information circular of InnVest dated December 31, 2011 (the “**Special Meeting Circular**”) prepared in connection with InnVest’s special meeting of Unitholders held on February 23, 2012 (the “**2012 Special Meeting**”);
- (vii) the management information circular of InnVest dated April 19, 2012 (the “**Annual Meeting Circular**”) prepared in connection with InnVest’s annual meeting of Unitholders held on May 23, 2012 (the “**2012 Annual Meeting**”);
- (viii) the material change report of InnVest dated June 1, 2012 in respect of the announcement that Tamara Lawson left her role as Chief Financial Officer of InnVest;
- (ix) the material change report of InnVest dated July 3, 2012 in respect of the completion of the SIFT Reorganization (as defined herein);
- (x) the material change report of InnVest dated December 7, 2012 in respect of the announcement that Kenneth Gibson retired as President and Chief Executive Officer of InnVest;
- (xi) the material change report of InnVest dated January 29, 2013 in respect of the implementation of the Strategic Plan (as defined herein) and InnVest’s qualification as a real estate investment trust in respect of the year ended December 31, 2012; and
- (xii) the material change report of InnVest dated February 6, 2013 in respect of the Offering.

**Any documents of the type referred to above and any business acquisition reports and certain press releases describing financial results filed by InnVest with the securities commissions or similar regulatory authorities in each of the provinces and territories of Canada subsequent to the date of this short form prospectus and prior to the termination of this distribution shall be deemed to be incorporated by reference into this short form prospectus. Any statement in this short form prospectus contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document or statement that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that was required to be stated or that was necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this short form prospectus.**

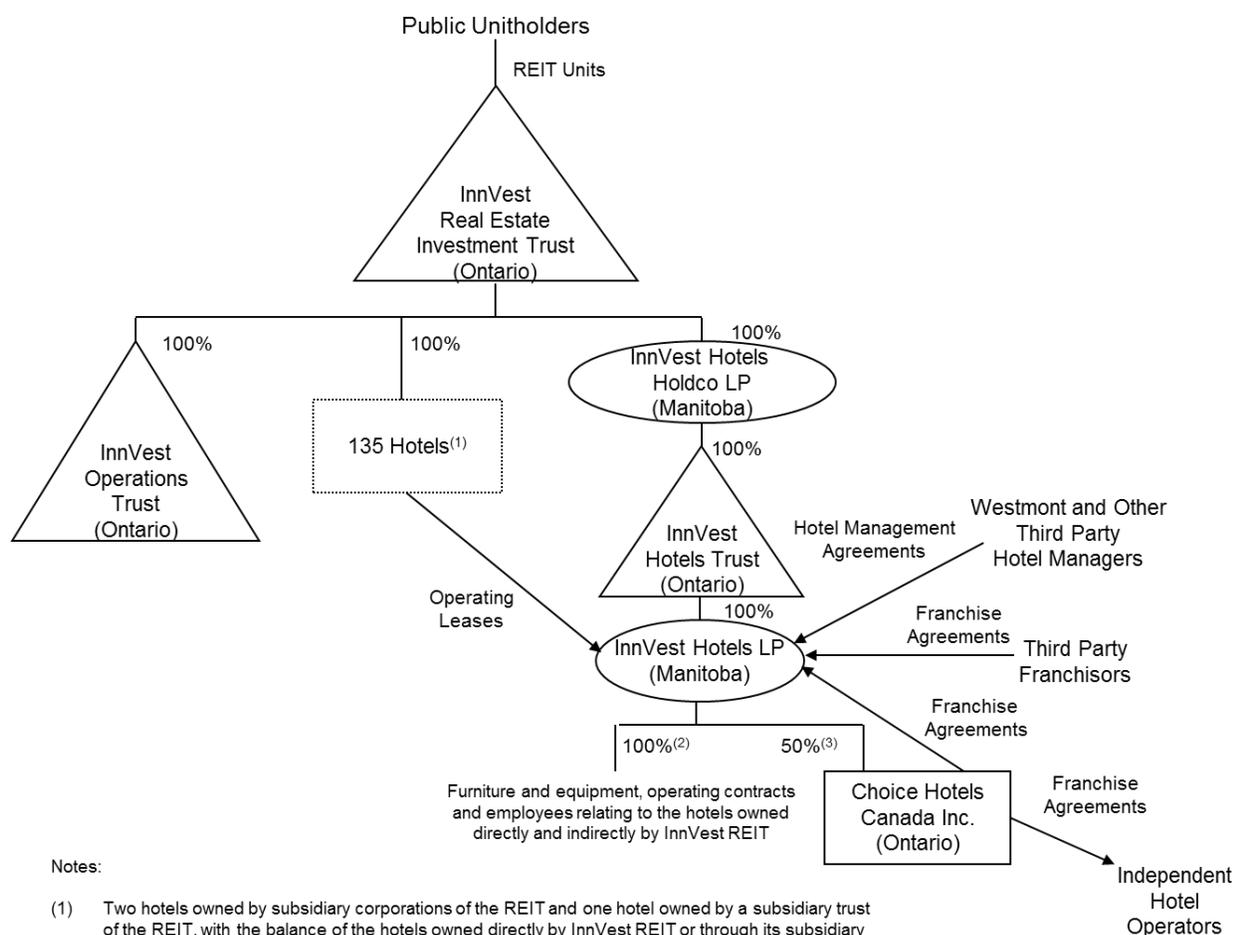
## INNVEST REAL ESTATE INVESTMENT TRUST

InnVest is an unincorporated open-ended trust governed by an amended and restated declaration of trust dated as of July 1, 2012 (the “**Declaration of Trust**”) and the laws of the Province of Ontario. InnVest is focused on the ownership and acquisition of hotel properties. InnVest also indirectly holds a 50% interest in Choice Hotels Canada Inc., one of the largest franchisors of hotels in Canada, as measured by hotels under franchise.

The head office and the registered office of InnVest are located at 7<sup>th</sup> Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9. InnVest is a “mutual fund trust” as defined by the Tax Act, but it is not a “mutual fund” as defined by applicable securities legislation.

InnVest currently holds, directly and indirectly, 135 Canadian hotel properties, one of Canada’s largest hotel portfolios as measured both by number of hotels and by number of guest rooms. InnVest’s hotels are operated under 14 internationally recognized brands.

The following diagram illustrates the primary structural and contractual relationships between InnVest and its principal subsidiaries and certain third parties as of February 20, 2013:



Notes:

- (1) Two hotels owned by subsidiary corporations of the REIT and one hotel owned by a subsidiary trust of the REIT, with the balance of the hotels owned directly by InnVest REIT or through its subsidiary limited partnerships.
- (2) Assets held directly by InnVest Hotels LP or through its subsidiary limited partnerships.
- (3) Shares held through a wholly-owned corporate subsidiary of InnVest Hotels LP

## RECENT DEVELOPMENTS

### **SIFT Reorganization**

On July 3, 2012 InnVest announced that its internal reorganization to unwind the stapled unit structure (the “**SIFT Reorganization**”), which was approved by the Unitholders at a special meeting on February 23, 2012, had been completed. The SIFT Reorganization was completed in response to announced changes to the federal income tax rules applicable to issuers of stapled securities that resulted in the non-deductibility of rents (and certain other amounts) paid by InnVest Operations Trust (“**IOT**”), the publicly-traded trust whose non-voting units had been stapled to the Units, to InnVest in computing the income of IOT under the Tax Act.

The SIFT Reorganization resulted in, among other things, the indirect transfer of substantially all of the assets and liabilities of IOT to InnVest and the unwinding of the stapled structure of InnVest and IOT with IOT becoming a wholly-owned subsidiary of InnVest with nominal remaining assets. As a result, IOT’s non-voting units were cancelled and InnVest’s declaration of trust was amended and restated to remove references to the stapled structure.

The SIFT Reorganization is described in further details on pages 6 to 20 of the Special Meeting Circular.

### **Recent Developments Occurring After September 30, 2012**

The following is a summary of significant developments in the operations and affairs of InnVest which have occurred since September 30, 2012, being the last day of the period in respect of which InnVest has filed the Third Quarter Financial Statements and the Third Quarter MD&A.

#### *Executive Changes*

On December 7, 2012 InnVest announced that Mr. Kenneth Gibson retired as President and Chief Executive Officer of InnVest. Mr. Gibson continues to serve in an advisory capacity to the board of trustees of InnVest. Anthony Messina is serving as Chief Executive Officer until a permanent replacement is found. InnVest also announced the appointment of Mr. George Kosziwka as its Chief Financial Officer.

#### *Implementation of Strategic Plan*

On January 29, 2013, InnVest also announced the adoption of a strategic plan designed to strengthen InnVest’s core operations, improve its balance sheet and increase long-term profitability (the “**Strategic Plan**”). The Strategic Plan is comprised of the following four initiatives: 1) a divestiture program to reposition InnVest’s portfolio; 2) implementing a focused capital program; 3) strengthening InnVest’s balance sheet; and 4) improving operations. The Strategic Plan is described in more detail in the material change report of InnVest dated January 29, 2013.

#### *Qualification as a “Real Estate Investment Trust”*

On January 29, 2013, InnVest announced that based on the substantive enactment for accounting purposes of Bill C-48 containing favourable proposed amendments to the tests for qualification as a REIT for Canadian income tax purposes, and InnVest’s valuation and measurement of its different categories of assets and revenues as required under these new tests, InnVest believes that it qualified as a REIT for such purposes during 2012. As a result, InnVest expects to reverse its previously accrued current income tax provision and substantially eliminate its deferred tax liability. In order to qualify for treatment as a REIT for Canadian income tax purposes in any taxation year, InnVest must continuously qualify under the REIT Exception throughout the year. There can be no assurances that such legislation will be passed in its proposed form or that InnVest will qualify for the REIT Exception for Canadian income tax purposes for 2013 and subsequent taxation years. See “Certain Canadian Federal Income Tax Considerations – Taxation of InnVest – REIT Exception” and “Risk Factors – Potential Unavailability of the REIT Exception”.

#### *Asset Sales*

Since September 30, 2012, InnVest has sold three hotels for net proceeds after closing costs of \$14.8 million. InnVest has repaid \$6.9 million of mortgages relating to these three assets resulting in net cash proceeds of \$7.9 million.

## CONSOLIDATED CAPITALIZATION

There have not been any material changes in the capitalization or indebtedness of InnVest since September 30, 2012, the date of InnVest's most recently filed financial statements, other than the Offering. The following table sets forth the cash and cash equivalents and the consolidated capitalization of InnVest: (i) as at September 30, 2012; (ii) as at September 30, 2012, after giving effect to the Offering as though it had been completed on September 30, 2012 (assuming the Over-Allotment Option is not exercised); and (iii) as at September 30, 2012, after giving effect to the Offering as though it has been completed on September 30, 2012 (assuming the Over-Allotment Option is not exercised) and as adjusted in connection with InnVest's anticipated qualification as a real estate investment trust for its 2012 taxation year. The table should be read in conjunction with the Third Quarter Financial Statements.

|  | As at September 30, 2012 |                                 |   |
|--|--------------------------|---------------------------------|---|
|  | Actual                   | As Adjusted for the<br>Offering | As Adjusted for the<br>Offering and<br>Qualifying REIT status |
|  |                          | (in thousands of \$)            |   |
| <b>Cash</b>                                    |                          |                                 |   |
| Cash and cash equivalents <sup>(1)</sup> ..... | \$10,567                 | \$39,371                        | \$39,371  |
| Restricted cash .....                          | 7,708                    | 7,708                           | 7,708   |
| <b>Total Cash</b> .....                        | <u>18,275</u>            | <u>47,079</u>                   | <u>47,079</u>   |
| <b>Indebtedness</b>                            |                          |                                 |   |
| Bridge Loan .....                              | 3,750                    | 3,750                           | 3,750   |
| Mortgages <sup>(2)</sup> .....                 | 787,853                  | 780,952                         | 780,952   |
| Convertible debentures <sup>(3)</sup> .....    | 291,910                  | 308,596                         | 308,596   |
| <b>Total Indebtedness</b> <sup>(4)</sup> ..... | <u>1,083,513</u>         | <u>1,093,298</u>                | <u>1,093,298</u>  |
| Unitholders' equity .....                      | <u>98,512</u>            | <u>98,512</u>                   | <u>289,702</u>  |
| <b>Total Capitalization</b> .....              | <u><u>1,182,025</u></u>  | <u><u>1,191,810</u></u>         | <u><u>1,383,000</u></u>                                       |

Notes:

- (1) Cash includes \$7,884 of net proceeds from hotels sold subsequent to September 30, 2012.
- (2) Net of debt issuance costs of \$9,328 and including \$3,880 of mortgages on assets held for sale. Also net of \$6,901 of mortgage debt repaid on three hotels sold subsequent to September 30, 2012. Includes \$16,600 drawn on operating line.
- (3) Actual column net of allocation to other liabilities of holders' option fair value of \$15,212, accretion and issuance costs of \$784. As Adjusted for the Offering and As Adjusted for the Offering and the Qualifying REIT Status columns net of allocation to other liabilities (allocation of conversion option value), accretion and issuance costs of \$8,334.
- (4) InnVest is not permitted to exceed certain financial leverage amounts under the terms of the Declaration of Trust. InnVest is permitted to have indebtedness, excluding convertible debentures, up to a level of 60% of its gross asset value. Further, InnVest is permitted to have indebtedness and convertible debentures up to a level of 75% of its gross asset value. The financial leverage is computed as of the last day of each financial year. InnVest calculates indebtedness in accordance with IFRS, excluding indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable, and deferred income tax liability. InnVest calculates gross asset value at any time as the total book value of assets on InnVest's then most recent publicly issued consolidated balance sheet, plus the accumulated depreciation and amortization thereon, less certain deferred tax liabilities. At September 30, 2012, InnVest's financial leverage excluding and including convertible debentures was 45.7% and 63.5%, respectively. InnVest's financial leverage excluding and including convertible debentures (assuming a portion of the net proceeds from the Offering is used to repay the Series B 6.00% convertible debentures) will be approximately 45.1% and 64.2%, respectively.

## USE OF PROCEEDS

The net proceeds to InnVest from the Offering, after deducting the Underwriters' fee and certain other expenses of the Offering, are estimated to be \$95,900,000, not including the net proceeds from the exercise of the Over-Allotment Option. The Underwriters' fee and the other expenses of the Offering will be paid out of the general funds of InnVest.

The net proceeds from the Offering will be used primarily to repay the Series B 6.00% convertible unsecured subordinated debentures. The balance of the net proceeds, and any additional proceeds received by the Company in connection with the exercise of the Over-Allotment Option, will be used by InnVest for general working capital purposes, which may include funding its capital improvement program as contemplated in the Strategic Plan.

## EARNINGS COVERAGE

The following *pro forma* earnings coverage ratios are calculated on a consolidated basis for InnVest for the year ended December 31, 2011 and the 12-month period ended September 30, 2012, in each case after giving effect to (i) the issuance of the Debentures, and (ii) the issuance or retirement of any long-term financial liabilities of InnVest subsequent to the end of each period. InnVest's borrowing cost requirements, after giving effect to the issue of the Debentures, amounted to \$75,268 for the 12 months ended September 30, 2012. InnVest's net income before borrowing costs, taxes, discontinued operations and writedowns for the 12 months then ended was \$42,957, which is 0.57 times InnVest's borrowing cost requirements for this period.

|  | 12 Months<br>Ended<br>December 31,<br>2011 | 12 Months<br>Ended<br>September 30,<br>2012 |
|--|--|---|
|  | <i>(pro forma)</i>                         |   |
| Interest requirements (in thousands of \$) <sup>(1)</sup> .....  | 74,771                                     | 75,268                                      |
| Earnings before interest expense and taxes (in thousands of \$) <sup>(2)</sup> .....   | 111,642                                    | 2,897                                       |
| <b>Earnings coverage</b> <sup>(1)(2)(3)</sup> .....  | 1.49                                       | 0.04  |
| Earnings before interest expense, taxes, discontinued operations<br>and writedowns (in thousands of \$) <sup>(2)</sup> ..... | 44,865                                     | 42,957                                      |
| <b>Adjusted earnings coverage</b> <sup>(1)(2)(4)</sup> .....   | 0.60                                       | 0.57  |

Notes:

- (1) For the purpose of this calculation, *pro forma* interest requirements assume that, with the exception of InnVest's Series B 6.00% convertible debentures, all of InnVest's remaining outstanding convertible debentures (including the Debentures) will be characterized as 100% debt and interest payments will be classified as interest expense in the financial statements.
- (2) InnVest's earnings for the year ended December 31, 2011 and the 12-month period ending September 30, 2012 were reduced by \$94,893 and \$95,348, respectively, on account of depreciation and amortization, but do not include reserves of \$25,303 and \$25,531, respectively, for replacement of furniture, fixtures and equipment and capital improvements
- (3) Earnings coverage is equal to net income before interest expense and taxes divided by interest expense on all debt.
- (4) Adjusted earnings coverage is equal to net income before interest expense, taxes, unrealized gains or losses on liabilities presented at fair value, finance cost distributions and writedowns of hotel properties divided by interest expense on all debt.

InnVest's earnings coverage ratios for the year ended December 31, 2011 and the 12-month period ended September 30, 2012 are 1.49 and 0.04, respectively. Excluding losses from discontinued operations and writedowns on assets held for sale, InnVest's adjusted earnings coverage ratios are 0.60 and 0.57, respectively. To achieve earnings coverage ratios of one-to-one, InnVest's earnings before interest expense and taxes for the 12-month period ended September 30, 2012 would have to increase by \$72,371 (\$29,906 and \$32,311 excluding unrealized gains or losses on liabilities presented at fair value, finance cost distributions and writedowns of hotel properties, for the year ended December 31, 2011 and the 12-month period ended September 30, 2012, respectively).

## DESCRIPTION OF THE UNITS

The following is a summary of the material attributes and characteristics of the Units.

### General

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of such Act or any other legislation. The Units are not shares in InnVest and Unitholders do not have statutory rights of shareholders of a corporation incorporated under either the *Business Corporations Act* (Ontario) or the *Canada Business Corporations Act*, including, for example, the right to bring "oppression" or "derivative" actions. Furthermore, InnVest is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

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

## Issuance of Units

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

## Purchase of Units by InnVest

InnVest may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof. In November 2011, InnVest and IOT initiated a normal course issuer bid to repurchase up to 8,485,405 of their stapled units and up to \$5,000,000 of their 5.75% Series F stapled convertible debentures, representing approximately 10% of the public float of each of the stapled units and 5.75% Series F stapled convertible debentures. In November 2011, InnVest also initiated a normal course issuer bid to repurchase up to \$7,498,000 of its 6.00% Series B convertible debentures, up to \$7,000,000 of its 5.85% Series C convertible debentures, up to \$3,635,800 of its 6.75% Series D convertible debentures and up to \$7,500,000 of its 6.00% Series E convertible debentures, representing approximately 10% of the public float of each such series of convertible debentures. No purchases were made under the normal course issuer bid and it expired on November 14, 2012 and was not renewed.

## Redemption Rights

Units are redeemable at any time on demand by the holders thereof. A Unitholder not otherwise holding a fully registered Unit certificate who wishes to exercise the redemption right is required to obtain a redemption notice form from his or her investment dealer who will be required to deliver the completed redemption notice form to InnVest through CDS. Upon receipt of the redemption notice by InnVest, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "**Redemption Price**") equal to the lesser of: (i) 95% of the "market price" (calculated in accordance with the provisions of the Declaration of Trust) of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Units were surrendered for redemption (the "**Redemption Date**"); and (ii) the "closing market price" (calculated in accordance with the provisions of the Declaration of Trust) on the principal market on which the Units are quoted for trading on the Redemption Date.

The aggregate Redemption Price payable by InnVest in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive a cheque upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by InnVest in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (provided that such limitation may be waived at the discretion of the trustees of InnVest); (ii) at the time such Units are tendered for redemption, the outstanding Units are listed for trading on a stock exchange or traded or quoted on another market which the trustees of InnVest consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the 10 trading day period commencing immediately after the Redemption Date.

If a Unitholder is not entitled to receive a cheque upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a distribution *in specie* of notes ("**Notes**") issued by InnVest Hotels Trust (or another subsidiary of InnVest). The aggregate fair market value of such Notes, as determined by the trustees of InnVest, would equal the Redemption Price payable by InnVest.

It is anticipated that the redemption rights described above will not be the primary mechanism for Unitholders to dispose of their Units.

### **Book-Based System**

Except as otherwise provided below, the Units are represented in the form of one or more fully registered global unit certificates held by, or on behalf of, CDS, as depository of such global unit certificates for the participants of CDS, registered in the name of CDS or its nominee, and registration of ownership and transfers of the Units are effected only through the book-based system administered by CDS.

Except as described below, no holder of a Unit is entitled to a certificate or other instrument from InnVest evidencing that holder's ownership thereof, and no holder of a beneficial interest in a Unit is shown on the records maintained by CDS except through book-entry accounts of a participant of CDS acting on behalf of the beneficial owners. CDS is responsible for establishing and maintaining book-entry accounts for its participants having interests in the global unit certificates. Sales of interests in the global unit certificates can only be completed through participants in the depository services of CDS.

Units are issued in fully registered form to holders or their nominees, if any, who purchase Units pursuant to a private placement of Units made in reliance upon Rule 144A adopted under the United States *Securities Act of 1933*, as amended (the "**1933 Act**") and to transferees thereof in the United States who purchase such Units in reliance upon Rule 144A. If any such privately placed Units represented by definitive certificates are subsequently traded into Canada, the registrar and transfer agent will deliver a certificate registered in the name of CDS or its nominee representing such Units and, thereafter, registration of ownership and transfers of such Units will be made through the book-based system administered by CDS.

Except in the case of U.S. purchasers purchasing the Units under Rule 144A, Units will be issued in fully registered form to holders or their nominees, other than CDS or its nominee, only if: (i) InnVest is required to do so by applicable law; (ii) the depository system of CDS ceases to exist; (iii) InnVest determines that CDS is no longer willing or able or qualified to discharge properly its responsibility as depository and InnVest is unable to locate a qualified successor; or (iv) InnVest at its option elects to terminate the book-based system in respect of the Units through CDS.

### **Transfer and Exchange of Units**

Transfers of beneficial ownership of Units represented by global unit certificates are effected through records maintained by CDS or its nominees (with respect to interests of participants) and on the records of participants (with respect to interests of persons other than participants). Unless InnVest elects, in its sole discretion, to prepare and deliver definitive certificates representing the Units, beneficial owners who are not participants in the book-based system administered by CDS, but who desire to purchase, sell or otherwise transfer ownership of or other interest in global unit certificates, may do so only through participants in the book-based system administered by CDS.

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

Registered holders of definitive certificates representing Units may transfer such Units upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Unit certificates to Computershare, the transfer agent and the registrar for the Units at its principal office in the City of Toronto, Ontario or such other city or cities as may from time to time be designated by InnVest, whereupon new Unit certificates will be issued in authorized denominations in the same aggregate principal amount as the Unit certificates so transferred, registered in the name of the transferees. Any request to transfer or exchange Units may not be honoured by InnVest and Computershare if such transfer or exchange is in contravention of United States federal or state securities laws or would require InnVest to register as an investment company under the United States *Investment Company Act of 1940*.

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

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act) or partnerships, any member of which is a non-resident of Canada

(“**Non-Resident Beneficiaries**”). The trustees of InnVest may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations as to whether such Units are held for the benefit of Non-Resident Beneficiaries.

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

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

The Declaration of Trust may be amended or altered from time to time. Certain amendments require approval by at least 66 2/3% of the votes cast at a meeting of Unitholders called for such purpose. Other amendments to the Declaration of Trust require approval by a majority of the votes cast at a meeting of Unitholders called for such purpose.

In addition, the trustees of InnVest may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- (i) for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over: (A) the trustees of InnVest; (B) the status of InnVest as a “mutual fund trust” under the Tax Act; or (C) the distribution of Units;
- (ii) which, in the opinion of the trustees of InnVest, provide additional protection for the Unitholders;
- (iii) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which are, in the opinion of the trustees of InnVest, necessary or desirable and not prejudicial to the Unitholders;
- (iv) which, in the opinion of the trustees of InnVest, are necessary or desirable as a result of changes in taxation laws or generally accepted accounting standards; and
- (v) for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) which, in the opinion of the trustees of InnVest, is not prejudicial to Unitholders and is necessary or desirable.

### **Distributions**

InnVest may distribute to Unitholders, on or about the 15th day of each month, such percentage of the estimated Distributable Income for the month then ended as the trustees of InnVest determine in their discretion. In addition, the trustees of InnVest may at any time declare an extraordinary distribution of cash, Units or other property of InnVest.

Distributions to Unitholders are approved on a monthly basis by the trustees of InnVest. In exercising their discretion to approve the level of distributions, the trustees utilize internal forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to continual change due to the nature of the Canadian hotel industry, which is difficult to predict even in the short term.

Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. The reserve on InnVest’s existing portfolio is approximately 4% of InnVest’s consolidated gross hotel revenues. See “Non-IFRS Financial Measures”.

Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Income for the prior periods is greater than or less than the trustees' estimates for the prior periods. The distributions for any month will be payable to the Unitholders of record at the close of business on the last business day of the month. Distributions of Distributable Income are made in cash and may be reinvested in Units through InnVest's distribution reinvestment plan.

InnVest paid the following monthly distributions in cash and by Units issued under InnVest's distribution reinvestment plan: \$0.09375 per Unit from September 2002 to November 2008, \$0.0625 per Unit from December 2008 to September 2009, \$0.0417 per Unit from October 2009 to November 2011 and \$0.0333 per Unit from December 2011 to the date hereof.

Although InnVest intends to make distributions of available cash to its Unitholders, these cash distributions may be reduced or suspended. The actual amount distributed will depend on numerous factors, including the financial performance of InnVest, seasonal fluctuations in operating results, InnVest's debt covenants and obligations, InnVest's working capital requirements, InnVest's future capital requirements, the redemption of Units, if any, the status of InnVest as a REIT or SIFT in any taxation year and other factors which may be beyond the control of InnVest. The market value of the Units may decline if InnVest is unable to meet its cash distribution targets in the future, and that decline may be significant. See "Risk Factors".

The adjusted cost base of Units held by a Unitholder will generally be reduced by the tax-deferred portion of distributions made to such Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's Units would otherwise be a negative amount. The tax-deferred portion of distributions for any year may be adjusted following any reassessment by the Canada Revenue Agency ("CRA") for that year. In 2008, 2009, 2010 and 2011 the tax-deferred portion of distributions made to Unitholders was 44.0%, 70.0%, 67.0% and 60.7%, respectively.

## DESCRIPTION OF THE DEBENTURES

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the trust indenture (the "**Indenture**") to be entered into prior to the completion of the Offering by InnVest, as issuer, and Computershare, as trustee (the "**Debenture Trustee**").

### General

The Debentures will be issued as the initial series under the Indenture.

The Debentures to be issued will be in the aggregate principal amount of \$100,000,000 (or up to \$115,000,000 if the Over-Allotment Option is exercised by the Underwriters). InnVest may, from time to time, without the consent of the holders of the Debentures, issue additional debentures of the same series or of a different series under the Indenture, in addition to the Debentures offered hereby.

The Debentures will be dated as of the closing of the Offering and will mature on March 31, 2019. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof and will bear interest from and including the date of the closing of the Offering at 5.75% per annum, which will be payable semi-annually in arrears on March 31 and September 30 in each year, commencing on September 30, 2013. The first interest payment will include interest accrued from the date of the closing of the Offering to, but excluding, September 30, 2013.

The principal amount of the Debentures is payable in lawful money of Canada or, at the option of InnVest and subject to applicable regulatory approval, by delivery of Units as further described under "— Method of Payment — Payment of Principal on Redemption or at Maturity". The interest on the Debentures is payable in lawful money of Canada including, at the option of InnVest and subject to applicable regulatory approval, in accordance with the Interest Payment Election as described under "— Method of Payment — Interest Payment Election".

The Debentures will be direct obligations of InnVest and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of InnVest as described under "— Subordination". The Indenture will not restrict InnVest from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

## Subordination

The Indenture will provide that the Debentures are subordinated in right of payment of principal and interest to all present and future Senior Indebtedness (as defined herein) of InnVest. No payment of principal (including redemption payments) or interest on the Debentures may be made (i) if any Senior Indebtedness is not paid when due and any applicable grace period with respect to such payment default on Senior Indebtedness has ended and such default has not been cured or waived or ceased to exist, or (ii) if the maturity of any Senior Indebtedness has been accelerated because of a default and either such acceleration has not been rescinded or such Senior Indebtedness has not been repaid. Upon any distribution of assets of InnVest to creditors upon any dissolution, winding-up, total liquidation or reorganization of InnVest, whether in bankruptcy, insolvency or receivership proceedings, upon an “assignment for the benefit of creditors”, or otherwise, all principal, premium, if any, and interest due on all Senior Indebtedness of InnVest must be paid in full before the holders of the Debentures are entitled to receive or retain any payment.

Neither the Indenture nor the Debentures will limit the ability of InnVest to incur additional indebtedness, including indebtedness that ranks senior to the Debentures or from mortgaging, pledging or charging its properties to secure any indebtedness.

The term “**Senior Indebtedness**” means the principal of, and the interest and premium (or any other amounts payable thereunder), if any, on:

- (i) all indebtedness, liabilities and obligations of InnVest (other than the 6.00% Series B convertible debentures, 5.85% Series C convertible debentures, 6.75% Series D convertible debentures, 6.00% Series E convertible debentures and 5.75% Series F convertible debentures (collectively, the “**Existing Debentures**”), the Debentures or other convertible debentures issued pursuant to the Indenture), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition by InnVest of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) or in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including by means of commercial paper, bankers’ acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) by others including any subsidiary of InnVest for payment of which InnVest is responsible or liable, whether absolutely or contingently; and
- (ii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations,

unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to the Debentures which by their terms are subordinated.

The Debentures will be direct unsecured obligations of InnVest. Each Debenture will rank *pari passu* with each other Debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of InnVest (including the Existing Debentures) except for sinking fund provisions, if any, applicable to different series of Debentures or other similar types of obligations of InnVest.

## Conversion Rights

Each Debenture is convertible into freely tradable Units of InnVest, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of March 29, 2019 (the business day immediately preceding the Maturity Date) and the last business day immediately preceding the date specified by InnVest for redemption of the Debentures, at a conversion price of \$5.80 per Unit (the “Conversion Price”), being a conversion rate of 172.4138 Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture. If all conversion rights attaching to the Debentures are exercised, InnVest will be required to issue 17,241,379 additional Units (or 19,827,586 Units if the Over-Allotment Option is exercised in full), subject to anti-dilution adjustments. No adjustment will be made for distributions on Units issuable upon conversion.

Holders converting their Debentures will be entitled to receive, in addition to the applicable number of Units to be received on conversion, accrued and unpaid interest, if any, for the period from the last interest payment date (or the date of the closing of the Offering if no interest has yet been paid by InnVest) to and including the last record date declared by InnVest for determining the Unitholders entitled to receive distributions on the Units prior to the date of conversion; provided that, in the event InnVest has suspended or has publicly announced the suspension of regular distributions to Unitholders prior to the date on which a holder converts the Debentures held by such holder, and such suspension is in effect on such conversion date, such holder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion (or the date of the closing of the Offering if no interest has yet been paid by InnVest) to and including the date of conversion.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price upon the occurrence of certain events including: (a) the subdivision or consolidation of the outstanding Units; (b) the distribution of Units to Unitholders by way of distribution or otherwise other than an issue of securities to Unitholders who have elected to receive distributions in securities of InnVest in lieu of receiving cash distributions paid in the ordinary course; (c) the issuance of options, rights or warrants to all or substantially all Unitholders entitling them to acquire Units or other securities convertible into Units at less than 95% of the Current Market Price; and (d) the distribution to all or substantially all the Unitholders of (i) units of any class other than Units and other than units distributed to Unitholders who have elected to receive dividends or distributions in the form of such units in lieu of dividends or distributions paid in the ordinary course, (ii) rights, options or warrants (excluding rights, options or warrants entitling the holders thereof for a period of not more than 45 days to subscribe for or purchase Units or securities convertible into Units), (iii) evidences of its indebtedness, or (iv) assets, excluding dividends or distributions paid in the ordinary course. There will be no adjustment of the Conversion Price in respect of any event described above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be, of such event. InnVest will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, amalgamation, reorganization or merger of InnVest with or into any other entity, or in the case of any sale or conveyance of the property and assets of InnVest as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of InnVest, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, reorganization, merger, sale, conveyance, liquidation, dissolution or winding-up, be entitled to receive and shall accept the number of Units or other securities or other property that, on the exercise of the conversion right, such holder would be entitled to receive if, on the effective date thereof, it had been the holder of the number of Units into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, reorganization, merger, sale, conveyance, liquidation, dissolution or winding-up.

No fractional Units will be issued on any conversion, but in lieu thereof, InnVest shall satisfy fractional interests by a cash payment equal to the current market price of the fractional interest which would have been issued.

If a holder of Debentures who is a non-resident of Canada (within the meaning of the Tax Act) desires to convert its Debentures in whole or in part into Units, it must deliver to the Debenture Trustee an amount equal to the required withholding tax payable in respect of the conversion or a certificate that no withholding tax is payable. A non-resident holder must also agree to indemnify InnVest against any losses suffered by InnVest as a result of the conversion of such holder's Debentures giving rise to any obligation of InnVest to withhold tax under the Tax Act.

### **Redemption Rights**

The Debentures will not be redeemable on or prior to March 31, 2016, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. On or after April 1, 2016 and prior to March 31, 2018, the Debentures will be redeemable at the option of InnVest, in whole or in part from time to time, on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the Current Market Price of the Units on the date on which the notice of redemption is given exceeds 125% of the Conversion Price. On or after April 1, 2018, and prior to March 31, 2019, the Debentures will be redeemable at the option of the Issuer, in whole or in part and from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest.

Any Debentures redeemed by InnVest will be cancelled and will not be reissued. In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 or by lot in such manner as the Debenture Trustee deems equitable.

### **Put Right upon a Change of Control**

Upon the occurrence of a change of control involving the acquisition, by any person or persons acting jointly or in concert, of voting control or direction over an aggregate of 66<sup>2</sup>/<sub>3</sub>% or more of the outstanding Units, or securities convertible into or carrying the right to acquire Units (a “**Change of Control**”), each holder of Debentures may require InnVest to purchase, on the date which is 30 days following the giving of notice of a Change of Control as set out below (the “**Put Date**”), all or any part of such holder’s Debentures at a price equal to 101% of the principal amount thereof (the “**Put Price**”) plus accrued and unpaid interest up to but excluding the Put Date (the “**Put Right**”); provided that the acquisition of Units by a Successor (or by a wholly-owned subsidiary of a Successor) where, as part of the same series of transactions, substantially all the holders of Units become holders of substantially all the shares or units, as the case may be, of the Successor does not constitute a Change of Control and does not enable the holders of Debentures to exercise Put Rights. A “**Successor**” is a person or entity that becomes the owner of substantially all of InnVest’s undertaking, property or assets, whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise. The Indenture requires a Successor to assume all of InnVest’s obligations under the Indenture in respect of the Debentures.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date InnVest provides notice of a Change of Control to the Debenture Trustee have been tendered for purchase on the Put Date, InnVest has the right to redeem all the remaining Debentures on such date at the Put Price. Notice of such redemption must be given to the Debenture Trustee by InnVest prior to the Put Date and, as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

### **Method of Payment**

#### *Payment of Principal on Redemption or at Maturity*

On redemption or at maturity, InnVest will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. InnVest may, at its option, on not more than 60 days’ and not less than 30 days’ prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature by issuing and delivering freely-tradable Units to the holders of the Debentures. The number of Units to be issued in respect of each Debenture will be determined by dividing the principal amount of the Debenture that are to be redeemed or that are to mature, as the case may be, by 95% of the Current Market Price of the Units on the TSX or other principal market on the date fixed for redemption or maturity, as the case may be. No fractional Units will be issued on redemption, but in lieu thereof, InnVest shall satisfy fractional interests by a cash payment equal to the market price of the fractional interest.

#### *Interest Payment Election*

Unless an Event of Default (as defined herein) has occurred and is continuing, and subject to receiving any required regulatory approvals, InnVest may elect, from time to time, to satisfy its obligation to pay interest on the Debentures (the “**Interest Obligation**”) on the date it is payable under the Indenture (an “**Interest Payment Date**”), by delivering a sufficient number of Units to the Debenture Trustee required to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the “**Interest Payment Election**”). The Indenture provides that, upon such election, the Debenture Trustee shall: (i) accept delivery from InnVest of the Units; (ii) accept bids with respect to, and consummate sales of such Units, each as InnVest shall direct in its absolute discretion; (iii) invest the proceeds of such sales in Government Obligations (as defined in the Indenture) that mature prior to the applicable Interest Payment Date, and use the proceeds received from such Government Obligations, together with any proceeds from the sale of Units not invested as aforesaid, to satisfy the Interest Obligation; and (iv) perform any other action necessarily incidental thereto.

The Indenture will set forth the procedures to be followed by InnVest and the Debenture Trustee in order to effect the Interest Payment Election. If an Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Units, plus any amount received by the Debenture Trustee from InnVest attributable to fractional Units, in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to InnVest in respect of the Interest Obligation.

Neither InnVest's making of the Interest Payment Election nor the consummation of sales of Units will (i) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the Interest Obligation payable on such date or (ii) entitle such holders to receive any Units in satisfaction of the Interest Obligation.

### Events of Default and Waiver

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will result upon the occurrence of certain events described in the Indenture, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay the interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures when due, whether at maturity, upon redemption, by declaration or otherwise; (iii) failure for 60 days after written notice to InnVest by the Debenture Trustee to comply with any of its obligations under the Debentures or the Indenture or any indenture supplemental thereto (other than those referred to in (i) and (ii) above); (iv) failure for 10 days to deliver Units (or cash in lieu of fractional Units) in accordance with the terms of the Indenture when such Units (or cash in lieu of fractional Units) are required to be delivered, upon conversion of an Debenture; (v) default under any agreement evidencing indebtedness for money borrowed by InnVest or a subsidiary of InnVest where such indebtedness shall be accelerated so that it shall be or become due or payable prior to the date on which the same would otherwise become due and payable and the aggregate amount thereof so accelerated exceeds \$35 million and such acceleration is not rescinded or annulled within five business days after written notice to InnVest by the Debenture Trustee; (vi) certain events of bankruptcy or insolvency affecting InnVest under bankruptcy, insolvency or analogous laws; (vii) a decree or court order issuing sequestration or process of execution against all or a substantial portion of the property of InnVest, appointing a receiver of all or a substantial part of the property of InnVest, or ordering the winding-up or liquidation of the affairs of InnVest and any such decree or order continues unstayed and in effect for 60 days; (viii) if a resolution is passed for the winding-up or liquidation of InnVest; or (ix) if, after the date of the Indenture, any proceedings with respect to InnVest are taken with respect to a compromise or arrangement, with respect to creditors of InnVest generally, under the applicable legislation of any jurisdiction.

The Indenture will provide that if an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon the request of holders of not less than 25% of the aggregate principal amount of the Debentures then outstanding, declare the principal and interest on all Debentures then outstanding and all other monies then outstanding to be due and payable.

In addition to the powers exercisable by Extraordinary Resolution (as defined herein), the holders of 66 <sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the Debentures at the time outstanding may waive any existing default and its consequences provided that if the Event of Default has occurred by reason of the non-observance or non-performance by InnVest of any covenant applicable only to one or more series of Debentures, then the holders of at least 66 <sup>2</sup>/<sub>3</sub>% of the principal amount of the outstanding Debentures shall be entitled to exercise this power.

The Debenture Trustee, so long as it has not become bound to declare the principal and interest on the Debentures then outstanding to be due and payable, or to obtain or enforce payment of the same, shall have the power to waive any Event of Default if, in the Debenture Trustee's opinion, the default shall have been cured or adequate satisfaction shall have been made therefor.

When a default is waived by the Debenture Trustee or holders of the Debentures, it is deemed cured and will cease to exist, but that waiver does not extend to any subsequent or other default or impair any consequent right.

### Modification

With certain exceptions, the Indenture and the rights of the holders of Debentures may be modified by InnVest with the consent of a majority of the holders of Debentures present and voting at a meeting at which not less than 25% of the principal amount of the Debentures then outstanding are present in person or by proxy (an "**Ordinary Resolution**").

The Indenture also provides that certain changes, including (i) changes relating to the modification of the terms of the Debentures, or any reduction of the rate of interest or extension of the time of payment of any principal or interest due thereon, (ii) the modification, abrogation, alteration, compromise or arrangement of the rights of the holders of Debentures or the Debenture Trustee against InnVest, or (iii) the waiver of any default under the Indenture, may be made if authorized by Extraordinary Resolution. The term "**Extraordinary Resolution**" is defined in the Indenture to mean, in effect, a resolution

passed by the affirmative votes of the holders of not less than 66 <sup>2</sup>/<sub>3</sub>% of the aggregate principal amount of the Debentures represented and voting at a duly constituted meeting of holders of Debentures.

If the business to be transacted at any meeting by Extraordinary Resolution or otherwise, especially affects the rights of holders of Debentures of one or more series in a manner or to an extent differing in any material way from that in or to which the rights of holders of Debentures of any other series are affected, then the holders of at least 66 <sup>2</sup>/<sub>3</sub>% of the principal amount of the outstanding Debentures of that specially affected series shall be entitled to vote separately at a meeting at which not less than 25% of the principal amount of the debentures of that series then outstanding are present in person or by proxy.

All actions which may be taken by holders of Debentures by Ordinary Resolution and Extraordinary Resolution and all actions requiring the approval of at least 66 <sup>2</sup>/<sub>3</sub>% of a series of Debentures may also be taken and exercised by an instrument or instruments in writing signed by the holders of not less than 66 <sup>2</sup>/<sub>3</sub>% in aggregate principal amount of the Debentures or series of Debentures then outstanding, as the case may be.

InnVest and the Debenture Trustee may, without the consent or concurrence of the holders of Debentures, by supplemental indenture or otherwise, make any changes or corrections in the Indenture which it shall have been advised by counsel are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provisions or clerical omissions or mistakes or manifest errors contained therein or in any indenture supplemental thereto.

### **Book-Based System**

The Debentures will be issued in “book-entry only” form and must be purchased or transferred through a participant in the depository service of CDS (a “**Participant**”). On the closing of the Offering, the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. The Debentures will be evidenced by one or more book-entry only global certificates. Registration of interests in and transfers of the Debentures will be made only through the depository service of CDS.

A purchaser acquiring a beneficial interest in the Debentures will not, except in limited circumstances, be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser’s interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a Participant. Such purchaser will receive a confirmation of purchase from the Underwriters or other registered dealer from whom Debentures are purchased.

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

At no time may more than 49% of the Units (on either a basic or fully diluted basis) be held for the benefit of Non-Resident Beneficiaries. The Debenture Trustee may require declarations as to the jurisdictions in which beneficial owners of Debentures are resident or declarations from holders of Debentures as to whether such Debentures are held for the benefit of Non-Resident Beneficiaries.

If the trustees of InnVest become aware that more than 49% of the Units (on either a basic or fully diluted basis) then outstanding are held, or may be held, for the benefit of Non-Resident Beneficiaries or that such a situation is imminent, InnVest may make a public announcement thereof and shall notify the Debenture Trustee in writing and the Debenture Trustee shall not accept a subscription for Debentures from or issue or register a transfer of Debentures to a person unless the person provides a declaration that the person is not a Non-Resident Beneficiary and does not hold its Debentures for a Non-Resident Beneficiary. If, notwithstanding the foregoing, the trustees of InnVest determine that more than 49% of the Units (on either a basic or fully diluted basis) are held for the benefit of Non-Resident Beneficiaries, InnVest may send a notice to Non-Resident Beneficiary holders of Debentures, chosen in inverse order to the order of acquisition or registration or in such manner as the trustees of InnVest may consider equitable and practicable, requiring them to sell their Debentures or a portion thereof within a specified period of not more than 60 days. If the holders of Debentures receiving such notice have not sold the specified number of Debentures or provided the trustees of InnVest with satisfactory evidence that they are not Non-Resident Beneficiaries of Canada and do not hold their Debentures for the benefit of Non-Resident Beneficiaries within such period, InnVest may sell such Debentures on behalf of such holders of Debentures and, in the interim, all rights attaching to such Debentures (including any right to receive payments of interest and conversion rights) shall be immediately suspended and the rights of any such holders of Debentures in respect of such Debentures shall be limited to receiving the net proceeds of sale (net of any withholding tax).

## PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, InnVest has agreed to issue and sell an aggregate of \$100,000,000 principal amount of Debentures to the Underwriters, and the Underwriters have severally agreed to purchase from InnVest, as principals, such Debentures on February 27, 2013 or on such later date as InnVest and the Underwriters may agree, but in any event not later than March 6, 2013. Delivery of the Debentures is conditional upon payment on closing by the Underwriters to InnVest of \$1,000 per Debenture for a total consideration of \$100,000,000. The Underwriting Agreement provides that InnVest will pay or cause to be paid to the Underwriters an aggregate fee of \$3,750,000 (\$37.50 per Debenture) in consideration of their services in connection with the Offering. The Underwriters' fee in respect of the Debentures is payable on closing of the Offering.

InnVest has granted to the Underwriters the Over-Allotment Option to purchase up to an aggregate of \$15,000,000 principal amount of Debentures on the same terms and conditions as the Offering, exercisable in whole or in part, in the sole discretion of the Underwriters, at any time up until 30 days after the closing of the Offering. If the Over-Allotment Option is exercised in full, the price to the public, Underwriters' Fee and net proceeds to InnVest (before deducting expenses of the Offering) will be \$115,000,000, \$4,312,500 and \$110,687,500, respectively (excluding accrued interest paid in respect of such Debentures). This short form prospectus qualifies for distribution the Debentures as well as the grant of the Over-Allotment Option and the issuance of the Debentures pursuant to the exercise of the Over-Allotment Option.

A purchaser who acquires Debentures forming part of the Underwriters' over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion upon the occurrence of certain stated events including certain stated events materially adversely affecting the financial markets in Canada. The Underwriters are, however, obligated to take up and pay for all Debentures if any securities are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that InnVest will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

InnVest has agreed, subject to certain exceptions, not to create, issue or sell, or enter into an agreement to create, issue or sell, Units or any securities convertible or exchangeable for Units for a period of 90 days subsequent to the closing of the Offering without the consent of the Underwriters, which consent may not be unreasonably withheld or delayed.

**There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".** The TSX has conditionally approved the listing of the Debentures and the Units issuable upon conversion of the Debentures. The listing is subject to InnVest fulfilling all of the listing requirements of the TSX on or before May 13, 2013.

The Underwriters propose to offer the Debentures initially at the offering price specified on the cover page of this short form prospectus. After the Underwriters have made a reasonable effort to sell all of the Debentures at the price specified on the cover page, the offering price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers of the Units is less than the amount paid by the Underwriters to InnVest.

Pursuant to the policy statement of certain securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Units or Debentures. The foregoing restriction is subject to certain exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of the Units or Debentures. These exceptions include: (i) a bid or purchase permitted under the Universal Market Integrity Rules relating to market stabilization and passive market making activities; and (ii) a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of the distribution. Such transactions, if commenced, may be discontinued at any time. InnVest has been advised by the Underwriters that, in connection with the Offering and subject to applicable laws, the Underwriters may over-allot or effect transactions that stabilize or maintain the market price of the Units and Debentures at levels other than those which might otherwise prevail on the open market.

The Debentures offered by this short form prospectus have not been and will not be registered under the 1933 Act, or any U.S. state securities laws, and may not be offered or sold within the United States, except in accordance with

Rule 144A under the 1933 Act to “Qualified Institutional Buyers” (as such term is defined under Rule 144A under the 1933 Act) in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws.

## RELATIONSHIP BETWEEN INNVEST AND CERTAIN UNDERWRITERS

An affiliate of RBCDS is a lender to InnVest under InnVest’s bridge loan due March 1, 2013 (the “Bridge Loan”) and operating line of credit due August 31, 2014 (the “Credit Line”). Certain affiliates of the Underwriters have provided and may provide in the future investment banking, commercial banking and other financial services to InnVest for which they have received or will receive compensation. Accordingly, InnVest may be considered to be a “connected issuer” of RBCDS within the meaning of applicable Canadian securities legislation.

The Bridge Loan was funded on March 19, 2008. The Bridge Loan was used to finance part of the development of a 105-room Staybridge Suites hotel located in Oakville, Ontario. As at February 19, 2013, the principal amount outstanding under the Bridge Loan was \$3.5 million.

InnVest’s borrowings under the Credit Line are used for general working capital purposes. Given the seasonality of earnings through the year in contrast to its fixed costs, InnVest generally funds a portion of its distributions in its first and second financial quarters with funds borrowed under the Credit Line. As at February 19, 2013, the principal amount outstanding under the Credit Line was \$28.2 million. InnVest may draw down any amounts repaid under the Credit Line, subject to compliance with the terms of the Credit Line.

As at February 19, 2013, InnVest was in compliance in all material respects with the terms and conditions of each of the Bridge Loan and the Credit Line and no breach under either facility had been waived by the lender thereto. The Bridge Loan and the Credit Line are currently secured by one property and 13 properties, respectively. There has been no material change in the financial position of InnVest since the execution of the agreements governing the Bridge Loan and the Credit Line, except as described elsewhere in this short form prospectus and in the documents incorporated by reference herein. The decision by the Underwriters to purchase Debentures was made independently of the lender under the Bridge Loan and the Credit Line and any other affiliates of the Underwriters, and no such person had any influence as to the determination of the terms of the distribution of the Debentures, the interest rate on the Debentures, the conversion price of the Debentures and the other terms and conditions of the Offering, which were established through negotiations between InnVest and the Underwriters. In addition, none of RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc., TD Securities Inc. and Canaccord Genuity Corp. will receive any benefit from the Offering, other than the respective portion of the Underwriters’ fee payable by InnVest to such Underwriters.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Davies Ward Phillips & Vineberg LLP, counsel to InnVest, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to the acquisition, holding and disposition of Debentures acquired under this Offering or any Units acquired under the terms of the Debentures (collectively, the “**Securities**”) by a holder who acquires Debentures pursuant to the Offering. This summary is applicable to a holder who, for purposes of the Tax Act, is resident in Canada, deals at arm’s length and is not affiliated with InnVest and holds the Securities as capital property (a “**Holder**”). Generally, the Securities will be considered to be capital property to a Holder provided the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Holders who might not otherwise be considered to hold their Securities as capital property may, in certain circumstances, be entitled to make the irrevocable election permitted by subsection 39(4) of the Tax Act to have such Securities, and any other “Canadian security” (as defined in the Tax Act) owned in the taxation year in which the election is made and all subsequent taxation years, deemed to be capital property. Such Holders should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to a Holder: (i) that is a “financial institution” for purposes of the mark-to-market rules; (ii) that is a “specified financial institution”; (iii) an interest in which is a “tax shelter investment”; or (iv) that has elected to determine its Canadian tax results in accordance with a “functional currency”, as each of those terms is defined in the Tax Act. Such Holders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of Securities. In addition, this summary does not address the deductibility of interest by an investor who has borrowed money to acquire Debentures under this Offering.

This summary is based upon the facts set out in this short form prospectus, in the AIF and in the Annual Financial Statements, information provided by InnVest's management ("Management"), the current provisions of the Tax Act and the regulations thereunder and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, and does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed herein. This summary assumes that the Tax Proposals will be enacted as proposed, but no assurances can be given that this will be the case. There can be no assurances that the CRA will not change its administrative policies and assessing practices. With respect to opinions and views based on representations and statements of Management as to matters of fact, counsel has assumed the accuracy of such representations and statements in giving such opinions and views.

This summary assumes that InnVest currently qualifies as a "mutual fund trust" under the Tax Act and will continue to so qualify while the Securities remain outstanding. This assumption is based upon a certificate of InnVest as to certain factual matters. If InnVest does not qualify as a mutual fund trust, the income tax considerations described below would in some respects be materially different. See "— Status of InnVest— Mutual Fund Trust".

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Securities. Moreover, the income and other tax consequences of acquiring, holding or disposing of Securities will vary depending on the Holder's particular circumstances. Accordingly, this summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any prospective Holder of Securities. Consequently, a prospective Holder should consult the Holder's own tax advisor for advice with respect to the tax consequences of an investment in Securities based on the prospective Holder's particular circumstances.**

This summary does not address any Canadian federal tax considerations applicable to non-residents of Canada, and non-residents should consult their own tax advisors regarding the tax consequences of acquiring, holding and disposing of Securities. Distributions on Securities or amounts paid in respect thereof, whether paid in cash or Units, and issuances of Units as on the conversion of Debentures, will be paid or issued net of any applicable withholding tax.

## **Taxation of Holders of Debentures**

### *Interest on Debentures*

A Holder of Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the Holder disposes of the Debentures in the year, that accrues or is deemed to accrue to it until the time of disposition) or that has become receivable by or is received by the Holder before the end of that taxation year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was included in computing the Holder's income for a preceding taxation year.

Any other Holder (including an individual) will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Holder in that taxation year (depending upon the method regularly followed by the Holder in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the Holder's income for a preceding taxation year.

A premium paid by InnVest to a Holder of Debentures on a Put Date will generally be deemed to be interest received at that time by the Holder if such premium is paid because of the repayment by InnVest of the Debentures before their maturity and to the extent that such premium can reasonably be considered to relate to, and does not exceed the value on the Put Date, of the interest that would have been paid or payable by InnVest on the Debentures for taxation years of InnVest ending after the Put Date.

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on investment income, including amounts in respect of interest.

### *Exercise of Conversion Privilege*

A Holder of a Debenture who pursuant to the conversion privilege converts the Debenture into Units will be considered to have disposed of the Debenture for proceeds of disposition equal to the aggregate of the fair market value of the Units so acquired at the time of the exchange and the amount of any cash received in lieu of fractional Units. The Holder will realize a capital gain or capital loss computed as described below under “— Dispositions of Debentures”. The cost to the Holder of the Units so acquired will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the Holder for the purposes of calculating the adjusted cost base of such Units.

### *Redemption or Repayment of Debentures*

If InnVest redeems a Debenture prior to maturity or repays a Debenture upon maturity and the Holder does not exercise the conversion privilege prior to such redemption or repayment, the Holder will be considered to have disposed of the Debenture for proceeds of disposition equal to the amount received by the Holder (other than the amount received or deemed to be received on account of interest) on such redemption or repayment. If the Holder receives Units on redemption or repayment, the Holder will be considered to have proceeds of disposition equal to the aggregate of the fair market value of the Units so received and the amount of any cash received in lieu of fractional units. The Holder may realize a capital gain or capital loss computed as described below under “— Dispositions of Debentures”. The cost to the Holder of the Units so received will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the Holder for the purpose of calculating the adjusted cost base of such Units.

### *Dispositions of Debentures*

A disposition or deemed disposition by a Holder of a Debenture will generally result in the Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater (or less) than the aggregate of the Holder’s adjusted cost base thereof and any reasonable costs of disposition. Any such capital gain or capital loss will be treated, for tax purposes, in the same manner as capital gains and capital losses arising from a disposition of Units which treatment is discussed below under “— Taxation of Holders of Units — Dispositions of Units” and “— Taxable Capital Gains and other Investment Income”.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the Holder’s income, except to the extent such amount was otherwise included in the Holder’s income, and will be excluded in computing the Holder’s proceeds of disposition of the Debenture.

A capital gain realized by a Holder who is an individual or a trust (other than certain specified trusts) may give rise to a liability for alternative minimum tax.

A Canadian-controlled private corporation that disposes of Debentures may be liable to pay an additional refundable tax on investment income, including taxable capital gains.

## **Taxation of Holders of Units**

### *Distributions on Units*

The summary set out below is based upon the assumption that InnVest qualifies under the REIT Exception throughout the relevant taxation year.

A Holder of Units (including Units acquired under the terms of a Debenture) will generally be required to include in income for a particular taxation year of the Holder the portion of the net income of InnVest for the taxation year of InnVest ending in that particular taxation year of the Holder, including net realized taxable capital gains, that is paid or payable to the Holder in such taxation year of InnVest, whether or not those amounts are paid or payable in cash or are reinvested in additional Units pursuant to InnVest’s distribution reinvestment plan.

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

The Declaration of Trust generally requires InnVest to claim the maximum amount of capital cost allowance available to it in computing its income for tax purposes, unless the trustees determine otherwise. Based on InnVest's distribution policy, the amount distributed to Holders of Units in a year may exceed the income of InnVest for tax purposes for that year. Distributions in excess of InnVest's income in a year, including amounts that may reasonably be considered to be distributions of any non-taxable dividends received by InnVest ("non-taxable dividend distributions"), will not generally be included in the Holder's income. However, a Holder is required to reduce the adjusted cost base of the Holder's Units by the portion of any amount paid or payable to the Holder by InnVest (other than the non-taxable portion of certain capital gains the taxable portion of which was designated by InnVest for the year as described in the paragraph below and certain non-taxable dividend distributions) that was not included in the Holder's income and the Holder will realize a capital gain to the extent the adjusted cost base of the Units would otherwise be a negative amount.

InnVest will designate, to the extent permitted by the Tax Act, the portion of the taxable income distributed to Holders of Units as may reasonably be considered to consist of net taxable capital gains of InnVest. Any such designated amount will be deemed for tax purposes to be received by Holders as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. InnVest will also designate, to the extent permitted by the Tax Act, the portion of any taxable dividends received by InnVest from subsidiaries that are taxable Canadian corporations as may reasonably be considered to be an amount included in the income of the Holders of Units. Any such designated amount will be deemed for relevant purposes of the Tax Act to be received by the Holders of Units as a taxable dividend and will be subject to the general rules regarding the taxation of taxable dividends paid by taxable Canadian corporations. Thus, to the extent that amounts are designated as taxable dividends from any taxable Canadian corporation owned by InnVest, they will be subject, *inter alia*, to the gross-up and dividend tax credit provisions in respect of Holders of Units who are individuals, to the refundable tax under Part IV of the Tax Act in respect of Holders of Units that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts), and to the deduction in computing taxable income in respect of Holders of Units that are corporations. A Holder which is a Canadian-controlled private corporation (as defined in the Tax Act) may also be liable to pay an additional refundable tax on certain investment income, including taxable capital gains. Holders should consult their own tax advisors for advice with respect to the potential application of these provisions.

Certain taxable dividends received by individuals from a corporation resident in Canada will be eligible for an enhanced dividend tax credit to the extent certain conditions are met and designations are made, such as the dividend being sourced out of income that is subject to tax at the general corporate income tax rate. This could apply to distributions made by InnVest that have as their sources eligible taxable dividends received from a corporation resident in Canada, to the extent InnVest makes the appropriate designation to have such eligible taxable dividend deemed received by the Holders of Units and provided that the corporate dividend payer makes the required designation to treat such taxable dividend as an eligible dividend.

If InnVest does not qualify under the REIT Exception throughout the year and becomes subject to tax under the SIFT Rules (see "— Taxation of InnVest" below), the pro rata share of a Holder of Units of amounts paid or payable by InnVest which it is not entitled to deduct in computing its income by virtue of the SIFT Rules will be deemed to be a taxable dividend and an eligible dividend received by the Holder.

#### *Dispositions of Units*

On the disposition or deemed disposition of a Unit, the Holder will realize a capital gain (or capital loss) equal to the amount by which the Holder's proceeds of disposition exceed (or are less than) the aggregate of the Holder's adjusted cost base of the Unit and any reasonable costs of disposition. Proceeds of disposition will not include an amount that is otherwise required to be included in the Holder's income. Where a Holder of Units that is a corporation or a trust (other than a mutual fund trust) disposes of a Unit, any capital loss from the disposition will be reduced by amounts designated as taxable dividends distributed by InnVest to the Holder to the extent and under the circumstances prescribed in the Tax Act. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units. Similar rules also may apply to reduce the amount of capital losses otherwise realized by most taxpayers (including corporations, individuals, and most trusts but not mutual fund trusts) as a result of a disposition of Units by them or a partnership of which they are a member where InnVest has made non-taxable dividend distributions.

For the purposes of determining the adjusted cost base of Units to a Holder thereof, when a Unit is acquired, whether as a Unit acquired pursuant to InnVest's distribution reinvestment plan or otherwise, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Holder as capital property immediately

before that time. The cost of Units acquired by reinvestment of distributions pursuant to InnVest's distribution reinvestment plan will be the amount of such reinvestment.

Where Units of a Holder are redeemed by the transfer of Notes of a subsidiary of InnVest to the Holder thereof, the Holder will be considered to have disposed of such Units for proceeds of disposition to the Holder equal to the fair market value of the Notes so distributed less any income or capital gain realized by InnVest as a result of the redemption of those Units to the extent such income or capital gain is designated by InnVest as payable by it to the redeeming Holder. Any such income and the taxable portion of any such capital gain that has been so designated will be required to be included in computing the Holder's income, except to the extent that it is included in the computation of the Holder's income as a deemed dividend under the SIFT Rules. The cost of any Notes transferred by InnVest to a Holder upon a redemption of Units will be equal to the fair market value of the Notes at the time of disposition.

#### *Taxable Capital Gains and other Investment Income*

One-half of any capital gain realized by a Holder of Units, and the amount of any net taxable capital gains designated by InnVest in respect of such a Holder (except to the extent that such amount is included in the computation of the Holder's income as a deemed dividend under the SIFT Rules), will be included in the Holder's income as a taxable capital gain. One-half of any capital loss realized by such a Holder on a disposition, or deemed disposition, of Units may be deducted only from taxable capital gains of the Holder in the year of disposition, and any excess of one-half of such capital losses over taxable capital gains may generally be deducted against taxable capital gains realized in the three preceding taxation years or in any subsequent taxation year, to the extent and under the circumstances described in the Tax Act.

A Holder that is a "Canadian controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax on certain investment income for the year, including taxable capital gains.

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

#### **Status of InnVest**

##### *Mutual Fund Trust*

This summary assumes that InnVest qualifies, and will continue at all times to qualify, as a "mutual fund trust" for purposes of the Tax Act.

To qualify as a mutual fund trust, InnVest must be a "unit trust" as defined in the Tax Act, must be resident in Canada, must not be established or maintained primarily for the benefit of non-residents, and must restrict its undertaking to: (i) the investing of its funds in property (other than real property or an interest in real property or an immovable or real right in an immovable), (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) or of any immovable (or real right in immovables) that is capital property of InnVest, or (iii) any combination of the activities described in (i) or (ii).

To qualify as a mutual fund trust, InnVest also must have at least 150 unitholders holding not less than one "block of units" of a class which have an aggregate fair market value of not less than \$500. It must also be the case that either

- (a) units of such class are qualified for distribution to the public (within the meaning of the regulations under the Tax Act), or
- (b) in the case of a trust created after 1999, there has been a lawful distribution in a province to the public of units of such class, and under the laws of that province, no prospectus, registration statement or similar document is required to be filed in respect of such distribution.

To qualify as a mutual fund trust, InnVest also cannot at any time reasonably be considered to have been established or to be maintained primarily for the benefit of persons who are not resident in Canada.

If InnVest was not to qualify as a mutual fund trust at any particular time, the Canadian federal income tax considerations described herein would, in some respects, be materially different.

## Taxation of InnVest

### *Application of SIFT Rules*

A special taxation regime (the “**SIFT Rules**”) applies to specified investment flow-through trusts or partnerships and investors in such trusts or partnerships. Were InnVest to become subject to the SIFT Rules, it would no longer be able to deduct any part of the amounts payable to Unitholders in respect of its “non-portfolio earnings”, which include: (i) income from its “non-portfolio properties” (in excess of any losses for the taxation year from non-portfolio properties); and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses for the taxation year from the disposition of such properties). For this purpose, “non-portfolio properties” include: (i) the Canadian real and immovable properties (or resource properties) of InnVest if their total fair market value is greater than 50% of the equity value of InnVest; (ii) a property that InnVest (or a person or partnership with which it does not deal at arm’s length) uses in the course of carrying on a business in Canada; and (iii) securities of a “subject entity” if InnVest holds securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity’s equity value or if InnVest holds securities of the subject entity which, together with all securities held by it in entities affiliated with the subject entity, have a total fair market value that is greater than 50% of InnVest’s equity value. A “subject entity” includes corporations resident in Canada, trusts resident in Canada, and “Canadian resident partnerships”. “Securities” are defined as rights (including contingent rights) conferred by an entity (or an entity affiliated with it) to receive, either immediately or in the future, an amount that can reasonably be regarded as all or any part of its capital, revenue or income, and includes any liability of a corporation, trust or partnership, in addition to shares, most trust interests and partnership interests, and rights to acquire such a security.

Most or all of the property of InnVest is non-portfolio property.

The amount (subject to potential adjustments) of income which InnVest was unable to deduct by virtue of the SIFT Rules would be taxed under the SIFT Rules at a combined federal and provincial tax rate similar to that of a corporation and the distribution of such amounts by InnVest to Holders would be treated as the payment of a dividend. The application of the SIFT Rules to InnVest would not change the treatment under the Tax Act of distributions in a year that are in excess of InnVest’s net income for the year.

### *REIT Exception*

The SIFT Rules are not applicable to “real estate investment trusts” (as defined in the Tax Act) that meet certain specified criteria relating to the nature of their income and investments (under the REIT Exception). In particular, in order for InnVest to qualify for this REIT Exception in a particular taxation year (and after taking into account Tax Proposals contained in a Bill (Bill C-48) that is before Parliament):

- (i) InnVest must, at no time in the taxation year, hold “non-portfolio property” (other than “qualified REIT properties”) which at that time represent in aggregate 10% or more of the fair market value of all its “non-portfolio property”;
- (ii) not less than 90% of InnVest’s “gross REIT revenues” (including net capital gains) for the taxation year must be derived from one or more of the following: “rent from real or immovable properties”; interest; gains from dispositions of “real or immovable properties” that are capital properties or gains from dispositions of “eligible resale properties”; dividends; and royalties;
- (iii) not less than 75% of InnVest’s “gross REIT revenues” for the taxation year must be derived from one or more of the following: “rent from real or immovable properties”; interest from mortgages or hypothecs on “real or immovable properties”; and the net amount of gains from dispositions of “real or immovable properties” that are capital property;
- (iv) at no time in the taxation year may the total fair market value of all properties held by InnVest, each of which is a “real or immovable property” that is capital property, eligible resale property, cash (including bank deposits, deposits with credit unions and bankers’ acceptances), or, generally, a debt obligation of a government in Canada or certain other public bodies, be less than 75% of the equity value of InnVest at that time; and
- (v) “investments” in InnVest (such as the Units) are, at any time in the taxation year, listed or traded on a stock exchange or other public market.

The definition of “qualified REIT property” of a trust includes capital property of the trust that is: “real or immovable property”; an eligible resale property, a security of a “subject entity” (such as Canadian-resident corporation, trust or partnership) that is a nominee holder of legal title of real or immovable property of the trust or of another “subject entity” all of whose securities are held by the trust; and property (subject to certain exclusions contained in the Tax Proposals) that is ancillary to the earning by InnVest of “gross REIT revenues” from (a) rent from “real or immovable property”, or (b) dispositions of “real immovable properties” that are capital properties. In addition, under a look-through rule, securities of a subsidiary limited partnership, corporation or trust of InnVest could qualify as “qualified REIT property” if the subsidiary itself satisfies the first four tests listed above for InnVest to qualify for the REIT Exception. For the foregoing purposes, under the Tax Proposals interest, dividends, partnership draws or other amounts of “gross REIT revenue” of InnVest (or a subsidiary of InnVest) that are in respect of a “security” held in another direct or indirect subsidiary of InnVest generally will be deemed to be “gross REIT revenue” of a particular character for purposes of applying the tests referred to in (ii) and (iii) above to the extent that any such distribution or other amount can reasonably be considered to be derived from “gross REIT revenue” having that character. “Rent from real or immovable properties” excludes among other things rent based on profits and payments for the occupation or use of a hotel room. Real or immovable property of a subsidiary limited partnership of InnVest that is held on income account generally will qualify as an “eligible resale property” if it is contiguous to a particular real or immovable property that is capital property of the partnership and its holding is ancillary to the holding of that particular property.

Management of InnVest has advised counsel that it believes that InnVest has satisfied the above five tests for its 2012 taxation year and based on its current expectations for 2013 including anticipated property sales and revenues, gains and approximate asset values, it anticipates InnVest will continue to meet these five tests in 2013.

The conditions for satisfying the REIT Exception are onerous and, as described above, include various numerical tests (including tests entailing valuations or measurement of various assets and revenue streams) which must be satisfied throughout, or for the whole of, the year in question. Therefore, financial results for a year, or developments occurring during the year, that were not anticipated earlier in the year, or challenges by the CRA to valuations made by or on behalf of management, or to other calculations, that are relevant to the application of the REIT Exception, could result in the REIT Exception not being available for the year. The CRA also could seek to treat rents received by InnVest, or subsidiary limited partnerships of InnVest, from IHLP or subsidiary limited partnerships of IHLP, as being payments for the occupation or use of hotel rooms rather than accepting that they qualify as “rent from real or immovable properties”. Furthermore, the satisfaction by InnVest of the REIT Exception also depends on the provisions of Bill C-48 being passed in relevant part substantially in its current form, and on there being no further amendments to the Tax Act which adversely affect the availability to InnVest of the REIT Exception. **Accordingly, there is a risk that InnVest will not qualify under the REIT Exception for one or more of its 2013 and subsequent taxation years (and qualification for 2012 also could be challenged). Were this to occur, the level of monthly cash distributions made on the Units could be negatively affected.**

Except where otherwise noted, the discussion in this summary assumes that InnVest will satisfy the REIT Exception.

#### *General Considerations for Taxation of InnVest*

The taxation year of InnVest is the calendar year. In each taxation year, InnVest is subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less any portion thereof that it deducts in respect of amounts paid or payable or deemed to be paid or payable in the year to Holders of Units. (As noted above under “—Application of SIFT Rules”, InnVest will not generally be entitled to deduct amounts that are paid or payable by it out of non-portfolio earnings if it should become subject to taxation under the SIFT Rules.) An amount will be considered to be payable to a Holder of Units in a taxation year if it is paid to the Holder in the year by InnVest or if the Holder is entitled in that year to enforce payment of the amount. Losses incurred by InnVest cannot be allocated to Holders, but may be deducted by InnVest in future years in accordance with the Tax Act.

The income for purposes of the Tax Act of InnVest for a taxation year will include any income realized from the rental of its rental properties and (where applicable) taxable capital gains or recapture of depreciation realized from the disposition of its properties, as well as any interest accruing on debt owing to it by a subsidiary trust, and its share of any income of subsidiary limited partnerships (which have calendar taxation years) for their corresponding taxation years. If such partnerships were to incur losses for purposes of the Tax Act, InnVest’s ability to deduct such losses may be limited by certain rules under the Tax Act.

In general, InnVest will not be subject to tax on amounts received as distributions from subsidiary partnerships. Generally, distributions to InnVest in excess of its allocated share of the income of a subsidiary limited partnership for a fiscal year will result in a reduction of the adjusted cost base of InnVest's units in such partnership by the amount of such excess. If, as a result, InnVest's adjusted cost base at the end of the taxation year of its units in such partnership would otherwise be a negative amount, InnVest will be deemed to realize a capital gain in such amount for that year, and InnVest's adjusted cost base at the beginning of the next taxation year of its units in the partnership will then be nil.

In computing its income for purposes of the Tax Act, InnVest may deduct reasonable administrative costs, interest and other expenses incurred by it for the purpose of earning income. InnVest may also deduct from its income for the year a portion of any reasonable expenses incurred by it to issue Units and debentures. The portion of such issue expenses deductible by InnVest in a taxation year is 20% of such issue expenses pro rated for a taxation year of InnVest that is less than 365 days.

In the event InnVest is otherwise liable for tax on its net realized taxable capital gains for a taxation year, it will be entitled for such taxation year to reduce (or receive a refund in respect of) its liability for such tax by an amount determined under the Tax Act based on the redemption of Units during the year (the "**Capital Gains Refund**"). In certain circumstances, the Capital Gains Refund in a particular taxation year may not completely offset InnVest's tax liability for such taxation year arising as a result of the creation and distribution of Notes in connection with the redemption of Units. Thus, the Declaration of Trust provides that any capital gains realized by InnVest as a result of such redemption may be allocated to the Holders redeeming their Units. The taxable portion of such capital gains must be included in the income of the redeeming Holder.

The Tax Act provides for a special 36% tax, the Part XII.2 tax, on the designated income (including income from Canadian real property, taxable capital gains from dispositions of taxable Canadian property (including Canadian real property, property used in carrying on a business in Canada and a share or unit of most corporations, partnerships or trusts that derives more than 50% of its fair market value from Canadian real property or certain other types of property) and income from businesses carried on in Canada) of certain trusts which have designated beneficiaries (including non-resident persons and certain tax-exempt persons) in circumstances where all or a substantial portion of such income has been distributed by the trusts to their beneficiaries. If the trust makes an appropriate designation to this effect in its return of income for the year in which such income is realized, a pro rata portion of such tax is deemed to have been paid by Canadian resident beneficiaries of the trust who are not designated beneficiaries and by certain other persons as an amount on account of their liability for tax under Part I of the Tax Act, so that they potentially can receive a full or partial refund of their pro rata share of the Part XII.2 tax paid by the trust for the year. The Part XII.2 tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided InnVest qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year. See "Risk Factors – Potential Unavailability of the REIT Exception".

## PRIOR SALES

The following table summarizes the issuances by InnVest of Units and securities convertible into Units within the 12 months prior to the date of this short form prospectus:

| Date                    | Security             | Price per Security | Number of Securities |
|-------------------------|----------------------|--------------------|----------------------|
| July 24, 2012.....      | Units <sup>(1)</sup> | \$4.65             | 8,134                |
| August 15, 2012.....    | Units <sup>(2)</sup> | \$5.08             | 5,274                |
| September 17, 2012..... | Units <sup>(2)</sup> | \$5.00             | 5,742                |
| October 12, 2012.....   | Units <sup>(1)</sup> | \$5.19             | 7,281                |
| October 15, 2012.....   | Units <sup>(2)</sup> | \$5.03             | 5,843                |
| November 15, 2012.....  | Units <sup>(2)</sup> | \$4.47             | 6,340                |
| December 17, 2012.....  | Units <sup>(2)</sup> | \$4.14             | 7,268                |
| January 7, 2013.....    | Units <sup>(3)</sup> | \$4.18             | 4,434                |
| January 9, 2013.....    | Units <sup>(1)</sup> | \$4.26             | 8,872                |
| January 15, 2013.....   | Units <sup>(2)</sup> | \$4.14             | 7,612                |
| January 29, 2013.....   | Units <sup>(3)</sup> | \$4.27             | 82,066               |
| February 15, 2013.....  | Units <sup>(2)</sup> | \$4.36             | 7,751                |

(1) Issued to trustees of InnVest in satisfaction of a portion of their annual retainer fee.

(2) Issued pursuant to InnVest's distribution reinvestment plan.

(3) Issued pursuant to InnVest's executive incentive plan.

## TRADING PRICE AND VOLUME

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of InnVest's pre-SIFT Reorganization stapled units, Units, and InnVest's 6.00% Series B convertible debentures, 5.85% Series C convertible debentures, 6.75% Series D convertible debentures, 6.00% Series E convertible debentures and 5.75% Series F convertible debentures on the TSX.

|                             | Trading of<br>Units and Stapled Units |      |           |
|-----------------------------|---------------------------------------|------|-----------|
|                             | High                                  | Low  | Volume    |
|                             | (\$)                                  | (\$) | (#)       |
| <b>2012 – Stapled Units</b> |                                       |      |           |
| February.....               | 5.56                                  | 4.99 | 4,479,669 |
| March.....                  | 5.49                                  | 5.02 | 3,383,385 |
| April.....                  | 5.33                                  | 4.62 | 3,024,386 |
| May.....                    | 5.10                                  | 4.30 | 3,446,897 |
| June.....                   | 4.92                                  | 4.36 | 3,241,364 |
| <b>2012 – Units</b>         |                                       |      |           |
| July.....                   | 5.29                                  | 4.67 | 2,280,986 |
| August.....                 | 5.20                                  | 4.75 | 2,551,134 |
| September.....              | 5.32                                  | 4.84 | 2,700,365 |
| October.....                | 5.22                                  | 4.61 | 2,624,321 |
| November.....               | 4.98                                  | 4.01 | 4,040,068 |
| December.....               | 4.43                                  | 3.95 | 3,603,751 |
| <b>2013 – Units</b>         |                                       |      |           |
| January.....                | 4.55                                  | 4.08 | 2,597,495 |
| February (1-19).....        | 4.48                                  | 4.22 | 2,644,239 |

|                       | Trading of 6.00% Series B<br>Convertible Debentures |        |        | Trading of 5.85% Series C<br>Convertible Debentures |        |        |
|-----------------------|---|--------|--------|---|--------|--------|
|                       | High  | Low    | Volume | High  | Low    | Volume |
|                       | (\$)  | (\$)   | (#)    | (\$)  | (\$)   | (#)    |
| <b>2012</b>           |   |        |        |   |        |        |
| February .....        | 102.52  | 101.00 | 3,140  | 101.25  | 100.00 | 3,650  |
| March .....           | 102.50  | 100.75 | 1,580  | 102.00  | 100.00 | 9,560  |
| April .....           | 101.75  | 100.03 | 4,190  | 100.90  | 99.00  | 8,520  |
| May .....             | 101.35  | 100.12 | 7,130  | 101.50  | 100.00 | 5,070  |
| June .....            | 101.00  | 100.10 | 10,750 | 101.50  | 100.00 | 7,760  |
| July .....            | 101.40  | 100.50 | 12,700 | 101.65  | 100.50 | 2,880  |
| August .....          | 101.54  | 100.50 | 4,990  | 102.80  | 100.51 | 2,950  |
| September .....       | 101.26  | 100.51 | 3,570  | 101.75  | 100.20 | 4,720  |
| October .....         | 101.00  | 100.51 | 3,660  | 101.75  | 100.30 | 5,020  |
| November .....        | 101.00  | 99.70  | 4,400  | 101.50  | 99.50  | 4,570  |
| December .....        | 100.48  | 99.50  | 10,240 | 100.98  | 99.50  | 5,130  |
| <b>2013</b>           |   |        |        |   |        |        |
| January .....         | 100.50  | 99.70  | 8,240  | 102.50  | 100.00 | 3,770  |
| February (1-19) ..... | 101.24  | 99.75  | 25,520 | 100.99  | 99.35  | 17,860 |

|                       | Trading of 6.75% Series D<br>Convertible Debentures |        |        | Trading of 6.00% Series E<br>Convertible Debentures |       |        |
|-----------------------|---|--------|--------|---|-------|--------|
|                       | High  | Low    | Volume | High  | Low   | Volume |
|                       | (\$)  | (\$)   | (#)    | (\$)  | (\$)  | (#)    |
| <b>2012</b>           |   |        |        |   |       |        |
| February .....        | 108.00  | 105.00 | 1,470  | 100.00  | 95.00 | 15,120 |
| March .....           | 107.50  | 104.60 | 5,550  | 99.50   | 95.00 | 12,210 |
| April .....           | 105.00  | 102.50 | 2,220  | 99.50   | 94.00 | 7,380  |
| May .....             | 105.09  | 102.00 | 1,583  | 100.00  | 96.50 | 6,180  |
| June .....            | 105.00  | 102.27 | 1,650  | 98.00   | 97.25 | 3,820  |
| July .....            | 114.00  | 104.50 | 2,710  | 98.00   | 96.50 | 7,120  |
| August .....          | 107.00  | 105.75 | 1,470  | 100.00  | 98.25 | 11,350 |
| September .....       | 106.00  | 103.40 | 1,970  | 101.00  | 99.25 | 20,810 |
| October .....         | 106.00  | 100.00 | 1,260  | 100.50  | 98.50 | 15,740 |
| November .....        | 103.00  | 100.00 | 4,160  | 99.80   | 96.00 | 26,800 |
| December .....        | 100.70  | 100.00 | 2,630  | 98.20   | 96.00 | 6,610  |
| <b>2013</b>           |   |        |        |   |       |        |
| January .....         | 108.25  | 100.35 | 3,680  | 99.25   | 96.17 | 27,330 |
| February (1-19) ..... | 102.85  | 101.30 | 4,270  | 99.50   | 98.30 | 8,870  |

|                       | Trading of 5.75% Series F<br>Convertible Debentures |       |        |
|-----------------------|---|-------|--------|
|                       | High  | Low   | Volume |
|                       | (\$)  | (\$)  | (#)    |
| <b>2012</b>           |   |       |        |
| February .....        | 97.50   | 96.00 | 7,730  |
| March .....           | 97.15   | 95.50 | 7,530  |
| April .....           | 96.70   | 93.00 | 7,700  |
| May .....             | 96.00   | 94.50 | 5,830  |
| June .....            | 96.00   | 92.00 | 5,770  |
| July .....            | 97.50   | 94.50 | 4,210  |
| August .....          | 97.50   | 96.00 | 11,530 |
| September .....       | 98.50   | 96.50 | 8,150  |
| October .....         | 99.89   | 97.00 | 6,400  |
| November .....        | 98.58   | 90.02 | 2,230  |
| December .....        | 99.00   | 95.00 | 6,010  |
| <b>2013</b>           |   |       |        |
| January .....         | 99.75   | 95.00 | 3,750  |
| February (1-19) ..... | 99.50   | 97.00 | 3,470  |

## **RISK FACTORS**

An investment in the Debentures involves certain risks. A prospective purchaser of Debentures should carefully consider the risk factors described under: (i) the heading “Risks and Uncertainties” found on page 18 of the Third Quarter MD&A and pages 36 to 37 of the Annual MD&A; (ii) the heading “Risk Factors” found on pages 60 to 76 of the AIF; and (iii) note 16 of the Third Quarter Financial Statements and note 17 of the Annual Financial Statements, each of which is incorporated by reference herein. In addition, a prospective purchaser of Debentures should carefully consider the risk factors described below and in the other information contained in this short form prospectus (including the documents incorporated by reference herein).

### **Matters Affecting Trading Prices for the Debentures**

There is currently no trading market for the Debentures. The TSX has conditionally approved the listing of the Debentures listed and posted for trading, subject to InnVest fulfilling all of the listing requirements of the TSX on or before May 13, 2013. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Units, general economic conditions and InnVest’s financial condition, historic financial performance and future prospects.

### **Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection**

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of InnVest and its creditworthiness. In addition, the Debentures are unsecured obligations of InnVest and are subordinate in right of payment to all InnVest’s existing and future Senior Indebtedness. Therefore, if InnVest becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, InnVest’s assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of InnVest’s subsidiaries except to the extent InnVest is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Indenture will not prohibit or limit the ability of InnVest or its subsidiaries to incur additional debt or liabilities (including Senior Indebtedness) or to make distributions, except, in respect of distributions where an Event of Default has occurred and such default has not been cured or waived. The Indenture will not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving InnVest.

### **Conversion Following Certain Transactions**

In the case of certain transactions, each Debenture will become convertible into the securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future. For example, if InnVest were acquired in a cash merger, each Debenture would become convertible solely into cash and would no longer be convertible into securities of InnVest. See “Description of the Debentures — Conversion Rights”.

### **Securities Ceasing to be Qualified Investment for Exempt Plans**

The Units will cease to be qualified investments for Exempt Plans if InnVest ceases to qualify as a mutual fund trust under the Tax Act and the Units cease to be listed on a designated stock exchange in Canada; and the Debentures will cease to be so qualified if InnVest ceases to qualify as a mutual fund trust, or the Units cease to be so listed, if on the occurrence of either event the Debentures are not listed on a designated stock exchange.

Notes of a subsidiary of InnVest received as a result of an *in specie* redemption of Units by InnVest would not be qualified investments for Exempt Plans, which could give rise to adverse consequences to the Exempt Plan or the annuitant or beneficiary thereunder. Accordingly, Exempt Plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attaching to such units.

## **Potential Unavailability of the REIT Exception**

InnVest would be subject to Canadian income tax (under the SIFT Rules) on a similar basis to a Canadian public corporation on its income for a year unless it qualified in that year as a REIT for purposes of the Tax Act under the REIT Exception. The conditions for satisfying the REIT Exception are onerous, and include various numerical tests (including tests entailing valuations or measurement of various asset and revenue streams) which must be satisfied throughout, or for the whole of, the year in question. Therefore, financial results for a year, or developments occurring during the year, that were not anticipated earlier in the year, or challenges by the CRA to valuations made by or on behalf of management, or to other calculations, that are relevant to the application of the REIT Exception, could result in the REIT Exception not being available for the year. The CRA also could seek to treat rents received by InnVest, or subsidiary limited partnerships of InnVest, from IHLP or subsidiary limited partnerships of IHLP, as payments for the occupation or use of hotel rooms rather than accepting that they qualify as “rent from real or immovable properties”. Furthermore, the satisfaction by InnVest of the REIT Exception also depends on the provisions of a Bill to amend the Tax Act (Bill C-48) being passed in relevant part substantially in its current form, and on there being no further amendments to the Tax Act which adversely affect the availability to InnVest of the REIT Exception. Accordingly, there is a risk that InnVest will not qualify as a REIT under the REIT Exception for one or more of its 2013 or subsequent taxation years (and qualification for 2012 also could be challenged). Were this to occur, the amount of monthly cash distributions on the Units (and therefore the aggregate distributions on the Units) could be negatively affected.

## **The Units are Subject to Market Price Volatility**

The market price of the Units may be adversely affected by a variety of factors relating to the business of InnVest, including fluctuations in its operating and financial results, the results of any public announcements made by InnVest and its results of operations relative to analysts’ expectations. In addition, the market price and trading volume of equity securities have experienced substantial volatility in the past, sometimes based on factors unrelated to the financial performance or prospects of the companies involved. These factors include general fluctuations in the stock market, changes in global financial markets, general market conditions, macroeconomic developments in countries where such companies carry on business and globally, and market perceptions of the attractiveness of particular industries. The stock markets in general have recently experienced extreme volatility. This volatility may adversely affect the market price of the Units.

## **Potential Dilution**

Subject to certain exceptions set forth at “Description of the Units”, the Declaration of Trust allows InnVest to issue an unlimited number of Units for such consideration and on such terms and conditions as shall be established by the trustees of InnVest, in many cases, without the approval of Unitholders. Except as described under the heading “Plan of Distribution”, InnVest may issue additional Units in subsequent offerings (including through the sale of securities convertible into or exercisable or exchangeable for Units) and on the conversion, exercise or exchange of options or other securities convertible into Units. InnVest may also issue Units to finance future acquisitions and other projects. The size of future issuances of Units or the effect that future issuances and sales of Units will have on the market price of the Units cannot be predicted at this time. Issuances of a substantial number of additional Units, or the perception that such issuances could occur, may adversely affect prevailing market prices for the Units. With any additional issuance of Units, investors will suffer dilution to their voting power and InnVest may experience dilution in its earnings per Unit.

## **Future Sales of Securities**

As at February 19, 2013, 93,694,639 Units were outstanding (124,547,761 Units after giving effect to the conversion of all securities convertible into Units and the vesting of all unvested Units). InnVest has a number of Unitholders that own significant numbers of Units, including Westmont Hospitality Group, Inc. which, based on public filings, owns 9.0% of the Units. All of the currently outstanding Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. Westmont Hospitality Group, Inc. may at any time sell any or all of the securities of InnVest that it owns. Sales of a substantial number of Units or other securities of InnVest in the public market could adversely affect the prevailing market price of the Units or Debentures or other securities of InnVest and could impair InnVest’s ability to raise additional capital.

## **Distributions**

Cash distributions are not guaranteed and may fluctuate with InnVest’s performance. InnVest depends on revenue generated from its portfolio of hotels to make such distributions. There can be no assurance regarding the amount of revenue

generated by such portfolio. The amount of Distributable Income will depend upon numerous factors, including the financial performance of InnVest, seasonal fluctuations in operating results, InnVest's debt covenants and obligations, InnVest's working capital requirements, InnVest's future capital requirements, InnVest continuing to qualify as a REIT for Canadian income tax purposes, the redemption of Units, if any, and other factors which may be beyond the control of InnVest. If the trustees of InnVest determine that it would be in the best interests of InnVest, they may reduce for any period the percentage of Distributable Income to be distributed to the Unitholders. In November 2008, September 2009 and November 2011, InnVest announced reductions in its monthly distribution. The reductions were implemented in light of the uncertain economic conditions which existed at the time, and the trustees' desire to strengthen InnVest's balance sheet and liquidity.

### **Structural Subordination of Units**

In the event of a bankruptcy, liquidation or reorganization of InnVest or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of InnVest and those subsidiaries before any assets are made available for distribution to the Unitholders. The Units will be effectively subordinated to most of the indebtedness and other liabilities of InnVest and its subsidiaries, expected to be \$1,093.3 million upon the closing of the Offering. Neither InnVest nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

### **LEGAL MATTERS**

Certain legal matters relating to the Offering will be passed upon by Davies Ward Phillips & Vineberg LLP, on behalf of InnVest, and by Osler, Hoskin & Harcourt LLP, on behalf of the Underwriters. As at the date hereof, the partners and associates of each of Davies Ward Phillips & Vineberg LLP and Osler, Hoskin & Harcourt LLP beneficially own, directly or indirectly, less than one percent of the securities of InnVest and its associates and affiliates.

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

The auditors of InnVest are Deloitte LLP at their principal offices in Toronto, Ontario. Deloitte LLP has advised us that it is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

The transfer agent and registrar for the Debentures and the Units is Computershare Trust Company of Canada at its principal offices in Toronto, Ontario.

### **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. The right may be exercised within two business days after receipt or deemed receipt of a short form prospectus and any amendment thereto. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the short form prospectus and any amendment thereto contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

## **INDEPENDENT AUDITOR'S CONSENT**

We have read the short form prospectus of InnVest Real Estate Investment Trust ("InnVest") dated February 20, 2013 relating to the issue and sale of \$100,000,000 aggregate principal amount of 5.75% convertible unsecured subordinated debentures, Series G (the "Prospectus") of InnVest. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the Prospectus of our report to the unitholders of InnVest on the consolidated balance sheets of InnVest as at December 31, 2011 December 31, 2010 and January 1, 2010, and the consolidated statements of net income and comprehensive income, consolidated statements of changes in unitholders' equity (deficit) and consolidated statement of cash flows for the years ended December 31, 2011 and December 31, 2010. Our report is dated March 15, 2012.

(signed) DELOITTE LLP  
Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
February 20, 2013

**CERTIFICATE OF INNVEST**

Dated: February 20, 2013

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

(Signed) ANTHONY MESSINA  
Chief Executive Officer

(Signed) GEORGE KOSZIWKA  
Chief Financial Officer

On behalf of the Board of Trustees

(Signed) FRANK ANDERSON  
Trustee

(Signed) MAJID MANGALJI  
Trustee

## CERTIFICATE OF THE UNDERWRITERS

Dated: February 20, 2013

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

RBC DOMINION SECURITIES INC.

By: (Signed) William Wong  
Managing Director

BMO NESBITT BURNS INC.

By: (Signed) Jonathan Li  
Director

CIBC WORLD MARKETS INC.

By: (Signed) Jeff Appleby  
Executive Director

SCOTIA CAPITAL INC.

By: (Signed) Bryce Stewart  
Director

TD SECURITIES INC.

By: (Signed) David Barnes  
Vice President

CANACCORD GENUITY CORP.

By: (Signed) Justin Bosa  
Managing Director

