

# INNVEST REAL ESTATE INVESTMENT TRUST

## MANAGEMENT INFORMATION AND PROXY CIRCULAR

*Unless otherwise indicated, all information contained herein is given as at March 24, 2006 and all dollar amounts are expressed in Canadian dollars.*

**This Management Information and Proxy Circular ("Circular") is furnished in connection with the solicitation of proxies by and on behalf of the management of InnVest Real Estate Investment Trust (the "REIT") for use at the annual and special meeting (the "Meeting") of unitholders ("Unitholders") of the REIT to be held on Wednesday, May 17, 2006 at 4:00 p.m. (Toronto time) and any adjournment(s) or postponement(s) thereof for the purposes set forth in the accompanying notice of Meeting (the "Notice"). It is expected that the solicitation will be made primarily by mail, but proxies may also be solicited by telephone or other personal contact by employees of the REIT. The costs of solicitation will be borne by the REIT.**

### APPOINTMENT AND REVOCATION OF PROXIES

A form of proxy is enclosed and, if it is not your intention to be present at the Meeting, you are asked to complete the form of proxy (the "Proxy Form") included in this Circular and return it in the envelope provided. The Proxy Form must be dated and executed by the Unitholder or the attorney of such Unitholder, duly authorized in writing, or if the Unitholder is a corporation, by an officer or attorney thereof duly authorized. If the proxy is executed by an attorney, a copy of the instrument appointing the attorney must accompany the proxy. Proxies to be used at the Meeting may be deposited with the REIT's transfer agent, Computershare Trust Company of Canada, by no later than noon (Toronto time) on the last business day preceding the day of the Meeting or any adjournment(s) or postponement(s) thereof or such other time as the Chairman of the Meeting may determine. Proxies sent by mail must be addressed to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1. Proxies may be deposited with the Chairman of the Meeting on the day of the Meeting or any adjournment(s) or postponement(s) thereof.

The people named in the enclosed Proxy Form are trustees or officers of the REIT. **A Unitholder has the right to appoint a proxy holder (who is not required to be a Unitholder), other than any person or company designated in the Proxy Form, to attend and act on such Unitholder's behalf at the Meeting, either by inserting such other desired proxy holder's name in the blank space provided on the Proxy Form and deleting the names thereon or by substituting another proper form of proxy.**

A Unitholder who has given a proxy pursuant to this solicitation may revoke it as to any matter on which a vote has not already been cast pursuant to its authority by instrument in writing executed by the Unitholder or by the attorney of such Unitholder, duly authorized in writing, or where the Unitholder is a corporation, by a duly authorized officer or attorney of the corporation delivered to Computershare Trust Company of Canada, in such manner and at such address as specified above, at any time up to and including the last business day preceding the day of the Meeting or any adjournment(s) or postponement(s) thereof at which the proxy is to be used or with the Chairman of the Meeting on the day of the Meeting or any adjournment(s) or postponement(s) thereof, or in any other manner permitted by law.

Units of the REIT ("Units") represented by proxies will be voted or withheld from voting as specified on any ballot that may be called for. The Proxy Form confers discretionary authority upon the persons named therein with respect to (i) each matter or group of matters identified therein for which no choice is specified, (ii) such other matters as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof. If the Unitholder specifies a choice with respect to any matter to be acted upon, the Units will be voted accordingly. In respect of a matter for which no choice is specified in the proxy, or unless otherwise provided for in the proxy, the nominees named in the accompanying Proxy Form will vote Units represented by the proxy for the approval of such matter.

At the date of this Circular, management of the REIT is not aware of any amendments or other matters to come before the Meeting other than the matters referred to in the Notice or Meeting. **With respect to amendments to**

**matters identified in the Notice or other matters that may come before the Meeting, such Units will be voted by the persons so designated in their discretion.**

### **VOTING AT MEETING AND QUORUM**

On March 24, 2006, there were 49,360,962 Units issued and outstanding. Each Unit entitles its holder to one vote at meetings of Unitholders of the REIT. Holders of Units of record at the close of business on April 11, 2006, the record date established for notice of the Meeting, will be entitled to vote at the Meeting, or any adjournment(s) or postponement(s) thereof, either in person or by proxy.

Unless otherwise required by law or by the REIT's declaration of trust (the "Declaration of Trust"), every question coming before the Meeting or any adjournment(s) or postponement(s) thereof shall be decided by the majority of the votes duly cast on the question. The quorum at the Meeting or any adjournment(s) or postponement(s) thereof shall consist of at least two individuals present in person, each of whom is a Unitholder or a proxy holder representing a Unitholder, and who, in the aggregate, hold or represent by proxy not less than 10% of the total votes attached to all outstanding Units.

### **PRINCIPAL HOLDERS OF UNITS**

To the knowledge of the trustees (the "Trustees") and executive officers (the "Executive Officers") of the REIT, there is no direct or indirect beneficial owner of, nor any person who exercises control or direction over, Units carrying more than 10% of the votes attached to the outstanding Units, other than Goodman & Company, Investment Counsel Ltd. ("G&C") who, on behalf of one or more of the mutual funds or other client accounts managed by it, exercises control or direction over 6,158,683 Units, which represents approximately 12.5% of the Units, and \$4,300,000 in convertible debentures of the REIT, listed as "INN.DB" on the Toronto Stock Exchange.

### **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON**

None of the Trustees or Executive Officers, nor any person who has held such a position since the beginning of the last completed financial year end of the REIT, nor any proposed nominee for election as a Trustee, nor any associate or affiliate of the foregoing persons, has any substantial or material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted on at the Meeting other than the election of directors, the appointment of the auditor and as set out herein.

### **BUSINESS OF THE MEETING**

#### **1. Financial Statements**

The consolidated financial statements for the fiscal year ended December 31, 2005, together with the auditors' report thereon, were mailed to the Unitholders with the Notice and this Circular. No vote by the Unitholders is required with respect to this matter.

#### **2. Appointment of Auditors**

The board of trustees of the REIT (the "Board of Trustees") propose that Deloitte & Touche LLP (the "Auditors") be re-appointed as the auditors of the REIT to hold office until the close of the next annual meeting of Unitholders and that the Board of Trustees be authorized to fix the remuneration of the Auditors. The Auditors were first appointed as auditors of the REIT on July 18, 2002.

#### **3. Election of the Board of Trustees**

##### *Term of Office*

The Declaration of Trust provides that the REIT shall have a minimum of five and a maximum of nine Trustees and that a majority of the Trustees must be resident Canadians and independent. Pursuant to the Declaration of Trust,

Westmont Hospitality Group, Inc. ("Westmont") has the right to appoint one Trustee, as it owns, in the aggregate, at least 5% of the outstanding Units. Westmont Hospitality Canada Limited (the "Manager") also has the right, under the Declaration of Trust, to appoint one Trustee, because the master hotel management agreement (the "Management Agreement") between the REIT, a wholly-owned subsidiary of the REIT and the Manager is in effect and the appointment would not result in a majority of the Trustees not being independent Trustees. See "Interests of Informed Persons in Material Transactions – Master Hotel Management Agreement". The remaining Trustees are elected by a plurality of the votes cast at the annual meeting of Unitholders. Westmont is entitled to vote its Units for the election of the remaining Trustees.

Pursuant to the Declaration of Trust, certain investment funds controlled by Goldman Sachs & Co. (the "Whitehall Investors") had the right to appoint two Trustees, provided they owned, in the aggregate, at least 15% of the outstanding Units, or one Trustee, provided they owned, in the aggregate at least 5% of the outstanding Units. On December 8, 2005, the Whitehall Investors sold their remaining equity interest in the REIT and, as a result, their right to appoint a Trustee under the Declaration of Trust ceased. As a result of the sale, Brian C. Collyer and Lauren J. Zucker, representatives of the Manager and Whitehall Funds, respectively, resigned their positions as Trustees.

As of the date of this Circular, the REIT has five Trustees (Majid Mangalji (Chairman), Frank Anderson, Morton G. Gross, Michael P. Kitt and Minhas N. Mohamed). Each of the Trustees has served as a Trustee since June 2, 2002. One of the Trustees, Majid Mangalji, is an appointee of Westmont pursuant to the Declaration of Trust and as such, is deemed not to be an independent Trustee and will remain a trustee for an indefinite term until he resigns, is changed by Westmont or until the ownership threshold specified in the Declaration of Trust is no longer met. Fereed Mangalji will be appointed before the Meeting as a Trustee by the Manager pursuant to the Declaration of Trust and will therefore also deemed not to be an independent Trustee. He will remain a Trustee until he resigns, is changed by the Manager, the Management Agreement ceases to remain in effect or his appointment would result in a majority of Trustees not being independent Trustees. All the other Trustees are standing for re-election at the Meeting and, if re-elected, will serve until the close of the next annual meeting of Unitholders, or until their successors are elected or appointed, and will be eligible for re-election.

#### *Nominees*

The persons named below have established their eligibility and willingness to serve as Trustees and will be nominated for election at the Meeting as management's nominees. Each Trustee elected at the Meeting or appointed by the Board of Trustees to fill a vacancy on the Board of Trustees thereafter will hold office until the close of the next annual general meeting of the REIT or until the Trustee's successor is elected or appointed and shall be eligible for re-election, unless the Trustee's office is earlier vacated in accordance with the Declaration of Trust.

<b><u>Name and Municipal Address</u></b>	<b><u>Current Principal Occupation</u></b>	<b><u>Units Beneficially Owned or Controlled</u></b>
Frank Anderson, FCA <sup>(1)(2)(4)</sup> Ontario, Canada	President of LIN Solutions Inc., a consulting company	6,626
Morton G. Gross, Q.C. <sup>(1)(3)(4)</sup> Ontario, Canada	Senior partner of Borden Ladner Gervais LLP (Toronto office), a law firm	8,560
Michael P. Kitt <sup>(1)(2)(3)(4)</sup> Ontario, Canada	Executive Vice-President, Development of The Cadillac Fairview Corporation Limited, a commercial real estate company	15,306
Minhas N. Mohamed <sup>(1)(2)(3)(4)</sup> Ontario, Canada	President, Chief Executive Officer and Co-Founder of MMV Financial Inc., a venture capital company	6,606

Notes:

- (1) Member of Investment Committee.
- (2) Member of Audit Committee.
- (3) Member of Compensation and Corporate Governance Committee.
- (4) Independent Trustee.

*Appointed Trustees Continuing in Office*

Set out below is the Trustee appointed by Westmont and the individual to be appointed as a Trustee by the Manager before the Meeting, respectively.

<u>Name and Municipal Address</u>	<u>Current Principal Occupation</u>	<u>Units Beneficially Owned or Controlled</u>
<b>Majid Mangalji</b> <sup>(1)(2)</sup> Wimbledon, England	Founder and President of the Westmont, a private hotel owner and operator	3,647,379 <sup>(3)(4)</sup>
<b>Fereed Mangalji</b> New York, United States	Executive Director of the Westmont, a private hotel owner and operator	3,640,649 <sup>(3)</sup>

Notes:

(1) Member of Investment Committee.

(2) Chairman of the Board of Trustees.

(3) Includes 250,272 Units controlled through Westmont and 3,390,377 Units controlled through Maple Leaf Investment Holdings. Majid Mangalji and Fereed Mangalji, together, have the decision-making authority for both of these entities.

(4) Majid Mangalji directly owns 6,730 Units.

**4. Reduction in the Number of Trustees and Appointment of Additional Trustees**

The Declaration of Trust provides that there shall be no fewer than five and no more than nine Trustees and that the number of Trustees may be changed within such limits by the Unitholders or, if authorized by the Unitholders, by the Trustees.

From the date of the REIT's initial public offering, the number of Trustees has been fixed at seven. On December 8, 2005, two of the Trustees (Brian C. Collyer and Lauren J. Zucker) who were nominees of the Manager and Whitehall Investors, respectively, resigned upon the disposition by the Whitehall Investors of their remaining equity interest in the REIT. As of the date of this Circular, there remains two vacancies on the Board of Trustees. However, in accordance with the terms of the Declaration of Trust, the Manager intends to appoint Fereed Mangalji as its representative Trustee before the Meeting. The REIT is seeking a candidate to serve as an independent Trustee to fill the other vacancy. Although the REIT is confident that it will fill the other vacancy in the near term, pending such appointment, the Trustees are asking Unitholders to reduce the number of Trustees from seven to six and to authorize the Trustees to vary the number of Trustees going forward. This authorization will enable the Trustees to change the number of Trustees, from time to time, within the limits authorized by the Declaration of Trust. The Declaration of Trust prohibits the Trustees from appointing an additional Trustee if after such appointment the total number of Trustees would be greater than one and one-third times the number of Trustees in office immediately following the last annual meeting of Unitholders. The Trustees intend to increase the number of Trustees to seven at such time as the REIT identifies a suitable candidate, and to appoint such candidate to the Board of Trustees until the next annual meeting of Unitholders or until a successor is elected or appointed. A draft of the resolution changing the number of Trustees is attached to this Circular as Schedule B.

**5. The Reorganization**

At the Meeting, Unitholders will be asked to consider and, if deemed advisable, pass a resolution approving a proposed reorganization (the "Reorganization") and certain consequential amendments to the Declaration of Trust which are necessary or desirable to give effect to the Reorganization. See "The Reorganization" and "Amendments to the Declaration of Trust". The resolution (the "Special Resolution") requires the approval of a two-thirds majority of the votes cast at the Meeting. A draft of the Special Resolution is attached to this Circular as Schedule C.

As more fully set out below, the Reorganization will result in the consolidation of the ownership and operation of the hotels comprising the REIT's portfolio in InnVest Hotels LP (the "Operator"), an existing and wholly owned subsidiary of the REIT that directly or indirectly carries on the hotel businesses at substantially all of the hotels in the REIT's portfolio. The rights of Unitholders in respect of the REIT and their relative interests in and to the revenues derived from the REIT's business will not be affected by the Reorganization.

The purpose of the Reorganization is to reorganize the REIT and its subsidiaries in order to achieve a more efficient and integrated operational structure that will position the REIT to pursue additional hotel acquisitions in accordance with its long-term business plan. The existing ownership structure of the REIT is complex with a significant number of subsidiaries. It is anticipated that the REIT will achieve significant operating and other cost reductions by virtue of the Reorganization. The Reorganization also will result in a more tax-efficient structure whereby all hotel operating income is taxed at the unitholder level. In addition, management believes that simplifying the REIT's ownership structure and consolidating the ownership and operation of the hotels under the Operator will improve the REIT's ability to borrow from third-party mortgage lenders at favourable rates. Further, the simplified ownership structure may enable the REIT to use limited partnership units ("LP Units") of the Operator as attractive "currency" to Canadian vendors looking to sell their properties on a tax deferred basis.

The REIT has applied to the Canada Revenue Agency ("CRA") for an advance income tax ruling (the "Ruling") in respect of the Reorganization. If obtained, the Ruling will confirm that the Merger (as described below) occurring as part of the Reorganization will be governed by the provisions of section 132.2 of the Income Tax Act (Canada) (the "Tax Act") provided that specified conditions are satisfied. On this basis, and assuming certain other elections are made as described below under "Certain Canadian Federal Income Tax Considerations – Tax Considerations Applicable to the Reorganization", the Reorganization should occur on a tax-deferred basis for the REIT, its subsidiaries and Unitholders resident in Canada. See "Certain Canadian Federal Income Tax Considerations – Tax Considerations Applicable to the Reorganization". The REIT will not undertake the Reorganization if the Ruling is not obtained regardless of whether or not the Reorganization is approved by Unitholders at the Meeting.

Subject to obtaining the Ruling, and any consents or regulatory approvals determined to be necessary or advisable in connection with the Reorganization, and upon obtaining the requisite approval of Unitholders at the Meeting, the Trustees intend to effect the Reorganization during calendar 2006.

### **THE REORGANIZATION**

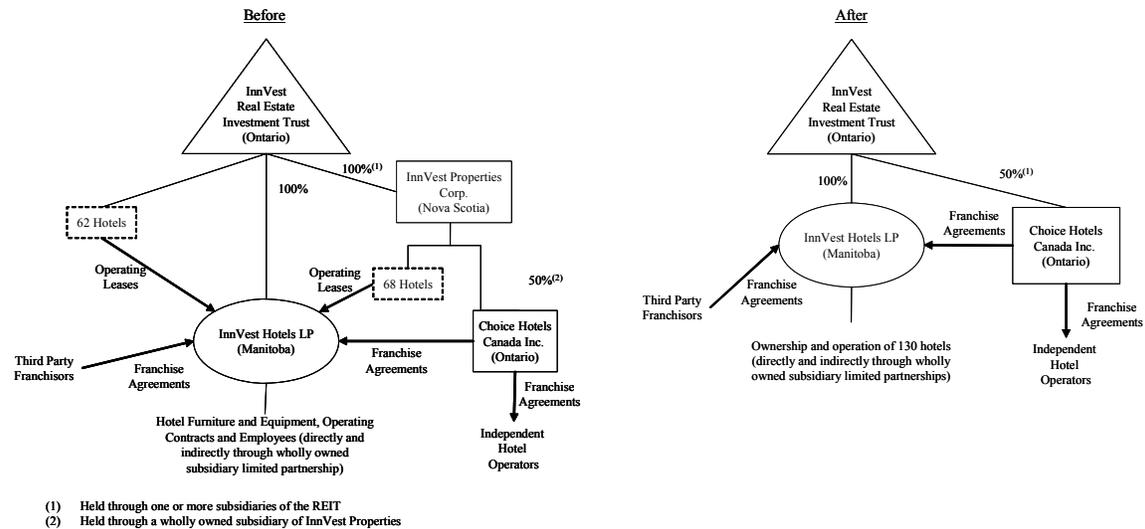
The following is a summary of the anticipated principal steps of the Reorganization:

- The existing subsidiaries through which the REIT holds the shares and indebtedness of InnVest Properties Corp. ("InnVest Properties") will be reorganized so that the REIT will directly own all of the shares and certain indebtedness of InnVest Properties.
- InnVest Properties will transfer all of its directly-held real estate assets to the Operator in consideration for LP Units of the Operator (the Operator will also assume any related liabilities).
- The REIT will incorporate a wholly-owned subsidiary ("Newco") under the laws of the Province of Ontario in connection with, and for the purpose of effecting, the Reorganization and will subscribe for a number of class A shares (the "Class A Shares") of Newco equal to the number of Units then outstanding.
- In accordance with this Circular, the REIT will distribute, as a return of capital, to Unitholders on the closing date of the Reorganization, on a *pro rata* basis, the Class A Shares.
- The REIT will transfer to Newco all of the shares and indebtedness of InnVest Properties then outstanding in exchange for class B shares (the "Class B Shares") of Newco.
- Newco and InnVest Properties will amalgamate under the laws of the Province of Ontario. The name of the amalgamated corporation ("Amalco") will be the same as that of Newco, the articles of Amalco will be the same as the articles of Newco, and Amalco will not issue any securities in connection with the amalgamation.
- The REIT will acquire all or substantially all of the assets of Amalco in exchange for Units, following which the outstanding Class A Shares and Class B Shares will be redeemed by Amalco in exchange for such Units (such steps being referred to collectively as the "Merger"). The Units distributed to the REIT on the redemption of the Class B Shares will be cancelled upon receipt.

- The outstanding Units (including additional Units distributed to Unitholders pursuant to the Reorganization) will automatically be consolidated such that the total number of Units outstanding upon completion of the Reorganization will be equal to the total number of Units outstanding immediately prior to the Reorganization. The steps described above and the consolidation of Units will have no impact on the outstanding convertible debentures of the REIT.
- Following completion of the steps described above and provided necessary lender, franchisor and other relevant consents are obtained as anticipated, the REIT intends to transfer all of its directly-held hotel assets, which are currently leased to the Operator, to the Operator for consideration that includes additional LP Units of the Operator. In addition, the REIT intends to cause the consolidation of various limited partnerships of which it will be the sole limited partner following the steps described above with the existing subsidiaries of the Operator to which such assets are leased such that, for each hotel, a single entity owns the hotel assets and carries on the hotel business associated with such hotel (subject to any constraints imposed by third parties, or where the wind-up of the partnership would trigger material taxes).
- The Declaration of Trust currently provides that the aggregate redemption price payable by the REIT to a Unitholder who has redeemed its units will be satisfied, in some circumstances, by way of a distribution *in specie* of notes issued by InnVest Properties. In order to give effect to the revised structure following the Reorganization, it is proposed to amend the relevant provisions of the Declaration of Trust to provide that the redemption price will be payable in such circumstances by way of a distribution *in specie* of notes issued by the Operator. See "Amendments to the Declaration of Trust".

The above reflects the steps management currently anticipates to be required for implementation of the Reorganization. Such steps may be modified in order to be consistent with the Ruling once issued. However, any such modifications will not adversely affect the tax consequences to Unitholders described below under "Certain Canadian Federal Income Tax Considerations".

The following diagrams illustrate the simplified structure of the REIT and its related entities before and after completion of the Reorganization. The "after" diagram depicts the optimal post-reorganization structure. If the REIT cannot obtain certain third party consents or if the wind up of certain partnerships gives rise to adverse tax consequences, the post-reorganization structure may differ.



## **Newco and Amalco**

Newco will be a wholly owned subsidiary of the REIT incorporated in connection with, and for the purpose of effecting, the Reorganization. Pursuant to the Reorganization, InnVest Properties will amalgamate with Newco under the laws of the Province of Ontario. The corporation continuing from such subsequent amalgamation is referred to in this Circular as "Amalco". The name of Amalco will be the same as that of Newco, the articles of Amalco will be the same as the articles of Newco, and Amalco will not issue any securities in connection with the amalgamation. Upon completion of the Reorganization, Amalco should have no assets or liabilities. However, Amalco may continue to hold registered title to real property that has been transferred to the Operator, as described above, as nominee of the Operator. Amalco may also continue to hold the 50% indirect interest in Choice Hotels Canada Inc. as well as certain contracts that it will hold as nominee on behalf of the Operator pending receipt of third party consents to assignment. At such time as Amalco no longer holds registered title of such assets, it may be liquidated and dissolved.

### *Description of Share Capital of Newco and Amalco*

The authorized capital of Newco and of Amalco will consist of an unlimited number of common shares, an unlimited number of Class A Shares and an unlimited number of Class B Shares.

Each common share of Newco and of Amalco will: (i) entitle the holder thereof to one vote on all matters to be voted on at all meetings of shareholders; (ii) entitle the holder thereof to receive dividends if, as and when declared by the board of directors of Newco or Amalco, as applicable; (iii) be redeemable, at the option of the holder or Newco or Amalco, as applicable, for a redemption price of \$1 per share; and (iv) on the liquidation, dissolution or winding-up of Newco or Amalco, as applicable, entitle the holder to share rateably in any remaining assets of Newco or Amalco, as applicable.

Each Class A Share of Newco and of Amalco and each Class B Share of Newco and of Amalco will: (i) be non-voting; (ii) entitle the holder thereof to receive dividends if, as and when declared by the board of directors of Newco or Amalco, as applicable; (iii) be redeemable, at the option of Newco or Amalco, as applicable, without notice to the holders thereof for a redemption price per share equal to the fair market value of any consideration paid to acquire such share on issuance (the "Redemption Price"); (iv) be redeemable at the option of the holder upon not less than three business days' prior written notice to Newco or Amalco, as applicable, for a redemption price per share equal to the Redemption Price; and (v) on the liquidation, dissolution or winding-up of Newco or Amalco, as applicable, entitle the holder to receive the aggregate Redemption Price, together with any declared and unpaid dividends to the date of payment, before any amount will be paid or any assets of Newco or Amalco, as applicable, distributed to the holders of common shares of Newco or Amalco, as applicable, or any shares ranking junior to the common shares of Newco or Amalco, as applicable. The transfer agent and registrar for the Class A Shares of Newco and of Amalco will be Computershare Trust Company of Canada.

## **Securities Laws**

The distribution of Class A Shares and additional Units to Unitholders pursuant to the Reorganization will be exempt from the registration and prospectus requirements of applicable Canadian securities legislation.

## **AMENDMENTS TO THE DECLARATION OF TRUST**

The Trustees propose to make only such amendments to the Declaration of Trust as may be necessary or desirable to give effect to the Reorganization, subject to Unitholder approval of the Special Resolution in respect thereof. These amendments will provide for, among other things:

- the redemption right that will, in certain circumstances, allow Unitholders to receive securities of the Operator pursuant to a redemption of Units as described more fully under the heading "Redemption Right" below;
- the deletion of references to InnVest Properties and related provisions as the case may require; and

- the replacement of references to the notes of InnVest Properties with the references to the notes of the Operator.

The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Declaration of Trust, as it will be amended and restated to give effect to the Reorganization (as amended and restated, the "Amended Declaration of Trust"). The terms of the Amended Declaration of Trust are materially identical to the existing Declaration of Trust. This summary is qualified in its entirety by reference to the provisions of the Amended Declaration of Trust, which will contain a complete statement of such provisions. For a description of the business of the REIT, which will be unchanged as a result of the Reorganization, see the REIT's Annual Information Form dated March 21, 2006 which is incorporated by reference herein.

### **Units**

The beneficial interests in the REIT are divided among one class of Units which will be entitled to the rights and subject to the limitations, restrictions and conditions set out in the Amended Declaration of Trust as summarized herein. An unlimited number of Units will be issuable pursuant to the Amended Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the REIT, whether of net income, net realized capital gains or other amounts, and in the net assets of the REIT in the event of termination or winding-up of the REIT. Each Unit entitles the holder thereof to one vote for each whole Unit held at all meetings of Unitholders. Except as set out under "Redemption Right", the Units have no conversion, retraction, redemption or pre-emptive rights.

### **Issuance of Units**

Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on such terms and conditions as the Trustees may determine. Unitholders do not have any pre-emptive 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) or through private placements (i.e. offerings to specific investors which are not made generally available to the public or existing Unitholders). In certain instances, the REIT may also issue new Units as consideration for the acquisition of new properties or assets. The price or value of the consideration for which Units may be issued will be determined by the Trustees. Issued and outstanding Units may be subdivided or consolidated from time to time by the Trustees without Unitholder approval. No certificates for fractional Units will be issued, and fractional Units will not entitle the holders thereof to vote.

### **Distribution Policy**

The REIT will distribute, to the extent possible, equal monthly cash distributions to Unitholders of record at the close of business on the last business day of the month, to be paid on or about the 15th day of the following month (the "Distribution Date") (with the January 15<sup>th</sup> distribution being payable as of the preceding December 31), of not less than 80% of the distributable income ("Distributable Income") of the REIT, based on estimated Distributable Income of the REIT for the calendar year. Distributions shall be made in cash and may be reinvested in Units through the REIT's distribution reinvestment plan.

The Distributable Income of the REIT will be calculated based on net income of the REIT as set out in its consolidated financial statements determined in accordance with Canadian generally accepted accounting principles, subject to certain adjustments set out in the Amended Declaration of Trust, including the adding back of depreciation and amortization, amortization of fair value debt adjustments and future income tax expense, excluding any gains or losses on the disposition of real property and future income tax benefits, and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements and the interest on convertible debentures that is not included in the computation of net income. Distributable Income so calculated may reflect any other adjustments determined by the Trustees in their discretion and may be estimated whenever the actual amount has not been fully determined. Such estimates will be adjusted as of the subsequent Distribution Date when the amount of Distributable Income has been finally determined.

The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of Unitholders.

### **Purchases of Units**

The REIT 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.

### **Redemption Right**

The Amended Declaration of Trust will provide that 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 the REIT through The Canadian Depositary for Securities Limited. Upon receipt of the redemption notice by the REIT, 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 equal to the lesser of: (i) 90% of the "market price" of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period commencing immediately subsequent to the date upon which the Units were surrendered for redemption; and (ii) the "closing market price" on the principal market on which the Units are quoted for trading on the redemption date.

For the purposes of this calculation, "market price" will be an amount equal to the simple average of the closing price of the Units for each of the trading days on which there was a closing price, provided that if the applicable exchange or market does not provide a closing price, but only provides the highest and lowest prices of the Units traded on a particular day, the "market price" shall be an amount equal to the simple average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the "market price" shall be the simple average of the following prices established for each of the 10 trading days: (i) the average of the last bid and last ask price of the Units for each day there was no trading; (ii) the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and (iii) the average of the highest and lowest prices of the Units for each day that there was trading if the market provides only the highest and lowest prices of Unit trades on a particular day. The "closing market price" shall be (i) an amount equal to the closing price of the Units if there was a trade on the date and the exchange or market provides a closing price; (ii) an amount equal to the average of the highest and lowest prices of the Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on a particular day; and (iii) the average of the last bid and last ask prices of the Units if there was no trading on that date.

The aggregate redemption price payable by the REIT 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 cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the REIT 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); (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 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 cash 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 transfer *in specie* of notes (the "Notes") issued by the Operator and held by the REIT. The aggregate principal amounts of such Notes would equal the redemption price payable by the REIT. The term of such Notes

would be 25 years, subject to earlier repayment at the option of the REIT, and they would bear interest equal to the then current prime lending rate, as quoted by the provider of the REIT's operating facility, plus 1%.

### **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). The Trustees may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations from holders of Units as to whether such Units are held for the benefit of non-residents. If the Trustees become aware that 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-residents or that such a situation is imminent, the Trustees 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. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the Units (on either a basic or fully-diluted basis) are held for the benefit of non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees 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 with satisfactory evidence that they are not non-residents and do not hold their Units for the benefit of non-residents within such period, the Trustees may sell such Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attached 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 (net of withholding tax).

### **Meetings of Unitholders**

Meetings of Unitholders must be called and held for the appointment or removal of Trustees (except for a nominee of Westmont or the Manager), the appointment or removal of the auditors of the REIT, the approval of amendments to the Declaration of Trust (except for certain amendments as described under "Amendments to the Declaration of Trust"), the sale of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization) and the liquidation or dissolution of the REIT. A resolution appointing or removing a Trustee (except for a nominee of Westmont) or the auditors of the REIT must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by two-thirds of the votes cast by Unitholders (a "special resolution"). Meetings of Unitholders will be called and held annually for the election of the Trustees and the appointment of auditors of the REIT.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Unitholders have the right to obtain a list of Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the *Canada Business Corporations Act*.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 10% of the votes attaching to all outstanding Units shall constitute a quorum for the transaction of business at all such meetings. If no quorum is present at any such meeting when called, the meeting, if called on the requisition of Unitholders, will be terminated and otherwise will be adjourned for not less than 10 days, and at the adjourned meeting, the Unitholders then present in person or represented by proxy will form the necessary quorum.

The Amended Declaration of Trust will contain provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders. These provisions will be identical to the provisions of the existing Declaration of Trust.

### **Term and Sale of Substantially All Assets**

The REIT has been established for an indefinite term. Pursuant to the Amended Declaration of Trust, termination of the REIT or the sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of the REIT approved by the Trustees) will require approval of the Unitholders by special resolution.

### **Information and Reports to Unitholders**

The REIT will, in accordance with and subject to applicable securities laws, furnish to Unitholders such financial statements (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) all such information as is required by applicable law to be provided to such holders.

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

The Amended Declaration of Trust will provide that it may be amended or altered from time to time by special resolution of the Unitholders.

The Trustees will be permitted, without the approval of Unitholders, to make certain amendments to the Amended Declaration of Trust, including amendments:

- for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the REIT,
- its status as a "mutual fund trust" under the Tax Act or the distribution of Units;
- which, in the opinion of the Trustees, provide additional protection for the Unitholders;
- which remove any conflicts or inconsistencies in the Declaration of Trust or make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders;
- which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws; and
- for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) if the Trustees are of the opinion that the amendment is not prejudicial to Unitholders and is necessary or desirable.

### **Takeover Bids**

The Amended Declaration of Trust will contain provisions analogous to those in the existing Declaration of Trust to the effect that if a takeover bid (as such term is defined in the *Securities Act* (Ontario) (the "Securities Act")) is made for the Units and not less than 90% of the Units (other than Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the offer on the terms offered by the offeror or at the fair value of such Unitholders' Units determined in accordance with the procedures set out in the Amended Declaration of Trust.

### **Financial Year End**

The financial year end of the REIT will be unchanged under the Amended Declaration of Trust and will continue to be December 31.

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes, as of the date of this Circular, the principal Canadian federal income tax considerations of the Reorganization generally applicable to a Unitholder who, at all relevant times and for the purposes of the Tax Act, is resident in Canada, holds Units as capital property and deals at arm's length, and is not affiliated, with the REIT. Generally, Units will be considered to be capital property to a Unitholder provided that the Unitholder does not hold the Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders whose Units might not otherwise qualify as capital property may, in certain circumstances, be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such Units, and all other "Canadian securities" as defined in the Tax Act, deemed to be capital property. Unitholders who do not hold their Units as capital property should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to (a) a Unitholder that is a "financial institution" as defined in the Tax Act for purposes of the mark-to-market rules, (b) a Unitholder that is a "specified financial institution" as defined in the Tax Act, or (c) a Unitholder an interest in which is a "tax shelter investment" as defined in the Tax Act. Such Unitholders should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "Regulations") and counsel's understanding of the current administrative and assessing practices of the CRA published in writing prior to the date of this Circular. This summary takes into account all specific proposals to amend the Tax Act and the Regulations announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Circular and assumes that such proposals will be enacted as proposed, but no assurance can be given that this will be the case. This summary does not otherwise take into account or anticipate any changes in the 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. There can be no assurance that the CRA will not change its administrative and assessing practices.

As noted above under "The Reorganization", the REIT has applied to the CRA for the Ruling, and it is anticipated that the Ruling will confirm that the Merger will be governed by the provisions of section 132.2 of the Tax Act provided that specified conditions are satisfied. However, no assurances can be given that CRA will provide the Ruling in the form requested. If the Ruling is not obtained, the REIT will not undertake the Reorganization regardless of whether or not the Reorganization is approved by Unitholders at the Meeting.

**This summary is of a general nature only and is not exhaustive of all Canadian federal tax considerations applicable to Unitholders. This summary is not intended to be, and should not be construed to be, legal, business or tax advice to any particular Unitholder, and no representation with respect to the tax consequences to any particular Unitholder are made. Unitholders should consult their own tax advisors to determine the tax consequences to them of the Reorganization having regard to their particular circumstances, including the application and effect of the income and other tax laws of any country, province, territory, state or local tax authority.**

### **Tax Considerations Applicable to the Reorganization**

#### *The REIT and its Subsidiaries*

The Merger will constitute a "qualifying exchange" as defined in section 132.2 of the Tax Act, thereby allowing an election to be made to establish the proceeds of disposition which Amalco will be deemed to receive on the transfer by it of all or substantially all its assets (the "Transferred Assets") to the REIT. Under that election, any Transferred Assets whose fair market value is lower than their cost amount for purposes of the Tax Act ("accrued loss assets") would, in most circumstances, be deemed to be disposed of for their fair market value; and Transferred Assets whose fair market value is higher than their cost amount ("accrued gain assets") would, in most circumstances, be deemed to be disposed of for their cost amount or such higher amount (not exceeding their fair market value) as is stipulated in the election. Management of the REIT intend that such election will be completed on the basis that any income realized on the disposition of accrued gain assets would not exceed the amount of any losses or deductions available to Amalco including losses realized on the disposition of accrued loss assets.

When the election is completed as described above and filed on a timely basis, there will be no income tax liability to Amalco resulting from the transfer of the Transferred Assets. The REIT will cause such election to be completed and filed on a timely basis.

Various transactions included in the Reorganization can occur without the realization of gain (including recapture of depreciation or capital gain) to any of the participating parties if the relevant parties (or where applicable, their partners) have properly completed and filed on a timely basis a joint tax election, and specified conditions are satisfied. For example, in order for a joint election under subsection 97(2) of the Tax Act to potentially result in there being no immediate recognition of gain on the transfer of property to a partnership for consideration including units of the partnership, the consideration received by the transferor that is not in the form of units of the transferee partnership must not exceed in amount the cost amount for purposes of the Tax Act of the transferred assets. Except as described above in respect of the Merger and described below in respect of the wind-up of certain partnerships, management of the REIT, who have been informed by counsel of the conditions under the Tax Act applicable to such elections and based on their current knowledge of the particulars of the Reorganization and taking such conditions into account, anticipate that no transfers of property in the course of the Reorganization will result in the realization of significant gain.

Following the completion of the other steps comprising the Reorganization, the REIT intends to cause various limited partnerships of which the REIT will be the sole limited partner to implement a winding-up of such partnerships under which undivided interests in the property of each such partnership will be transferred pro rata to the REIT (as former limited partner) and the general partner. Following such wind-up the general partner will transfer its undivided interest in such property to the REIT, and the REIT will transfer the property to the Operator or another subsidiary partnership. The partnership wind-up generally can occur without the realization of gain by the REIT provided that a properly completed joint election under subsection 98(3) of the Tax Act is filed on a timely basis and provided that the adjusted cost base to the REIT of its units in the partnership immediately before the time of the wind-up is not less than the cost amount to the partnership of its properties immediately before the winding-up distribution multiplied by the REIT's percentage partnership interest. It is possible that the adjusted cost base after the Merger to the REIT of the units of certain of its subsidiary partnerships may be insufficient to avoid the realization of gain by the REIT on a wind-up of such partnerships and if the resulting realization of gain by the REIT will result in the realization by it of a significant amount of taxable income, the REIT will not proceed with the wind-up of such partnerships, but will seek to identify and (if appropriate) implement all alternative transactions to merge such partnerships without generating significant taxable income. Further, the sale by a general partner of its undivided interest in property to the REIT may result in the realization of gain by the general partner. However any such gains will not be significant in amount.

Various amalgamations and corporate continuances that are contemplated to occur as part of the Reorganization should not result in the realization of gain by the amalgamating or continuing corporation, or any of their shareholders.

The proposed amendments of the Declaration of Trust including amendments respecting the payment of the redemption price for Units will not be considered to result in the termination of the REIT or otherwise to result in a disposition or deemed disposition by it of its property.

#### *Participation of Unitholders in the Reorganization*

Unitholders will not be required to include in computing income for the year the nominal value of the Class A Shares of Newco received from the REIT as a return of capital. A Unitholder will be required to reduce the adjusted cost base of its Units by the amount of the return of capital. To the extent that the adjusted cost base of a Unit would otherwise be a negative amount as a result of such reduction, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Unit to the Unitholder will then be nil. The cost to a Unitholder of a Class A Share of Newco distributed to such holder will be equal to the fair market value of such Class A Share at the time of the distribution.

A Unitholder holding Class A Shares of Newco will not realize a capital gain or a capital loss on the amalgamation of Newco and InnVest Properties. The cost to a Unitholder of the Class A Shares of Amalco resulting from the

amalgamation will be equal to the adjusted cost base of the Class A Shares of Newco to that Unitholder immediately before the amalgamation.

A Unitholder holding Class A Shares of Amalco will not be considered to have received a dividend and will not realize a capital gain or a capital loss as a result of the receipt of Units of the REIT on the redemption of the Class A Shares. The cost to a Unitholder of Units of the REIT received by such holder on the redemption will be equal to the cost amount of the redeemed Class A Shares to the holder immediately prior to the redemption. The cost of these Units will be required to be averaged with the adjusted cost base of all other Units held by the Unitholder as capital property immediately before the acquisition in order to determine the adjusted cost base of each Unit.

The consolidation of Units of the REIT occurring as part of the Reorganization will not be considered to result in a disposition of Units by Unitholders. With the exception of the nominal reduction referred to above, the aggregate adjusted cost base of Units owned by a Unitholder after the Reorganization will be equal to the aggregate adjusted cost base of the Units owned by the Unitholder immediately prior to the Reorganization.

The proposed amendment of the Declaration of Trust will not be considered to result in a disposition of Units by Unitholders.

#### *Eligibility for Investment*

The Class A Shares of Newco and Amalco will be qualified investments for purposes of the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (collectively, "Exempt Plans").

### **Tax Considerations Following the Reorganization**

#### *Taxation of Holders of Units*

##### Distributions

A Unitholder will generally be required to include in income for a particular taxation year the portion of the net income of the REIT for a taxation year of the REIT ending in that particular taxation year of the holder, including net realized taxable capital gains, that is paid or payable to the Unitholder in such taxation year of the REIT, whether or not those amounts are paid or payable in cash or are reinvested in additional Units pursuant to the REIT's distribution reinvestment plan.

The non-taxable portion of any net realized capital gains of the REIT paid or payable to a Unitholder in a taxation year will not be included in computing the holder's income.

The Amended Declaration of Trust will continue to require the REIT 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 the REIT's distribution policy, the amount distributed to Unitholders in a year may exceed the income of the REIT for tax purposes for that year. Distributions in excess the REIT's income in a year, including the 3% additional bonus distribution of Units acquired pursuant to the distribution reinvestment plan and amounts, if any, that may reasonably be considered to be distributions of any non-taxable dividends received by the REIT ("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 the REIT (other than the non-taxable portion of certain capital gains and certain non-taxable dividend distributions, if any) 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.

The REIT will designate, to the extent permitted by the Tax Act, the portion of the taxable income distributed to Unitholders as may reasonably be considered to consist of net taxable capital gains of the REIT. Any such designated amount will be deemed for tax purposes to be received by holders in the year as a taxable capital gain and will be subject to the general rules relating to the taxation of capital gains described below. The REIT will also designate, to the extent permitted by the Tax Act, the portion of any taxable dividends received by the REIT from

subsidiaries that are taxable Canadian corporations as may reasonably be considered to be an amount included in the income of the Unitholders. Any such designated amount will be deemed for purposes of the Tax Act, other than non-resident withholding purposes, 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.

The cost of Units acquired by reinvestment of distributions pursuant to the REIT's distribution reinvestment plan will be the amount of such reinvestment. There will be no net increase or decrease in the adjusted cost base of all of a holder's Units as a result of the receipt of bonus Units under the distribution reinvestment plan. However, the receipt of bonus Units under the Plan will result in a per Unit reduction of adjusted cost base to 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 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 the REIT 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 the REIT has made non-taxable dividend distributions.

Where Units are redeemed and the redemption price therefor is satisfied by the distribution of Notes of the Operator (or an affiliate of the Operator), the proceeds of disposition to the holder of the Units will be equal to the fair market value of the securities so distributed. The cost to a Unitholder of any such Notes distributed by the REIT will be equal to their fair market value at the time of the distribution.

One-half of any capital gains realized by a Unitholder and the amount of any net taxable capital gains designated by the REIT in respect of a Unitholder will be included in the holder's income as a taxable capital gain. One-half of any capital loss realized by a Unitholder may generally be deducted only from taxable capital gains in accordance with the provisions of the Tax Act.

A Unitholder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6% on investment income, including taxable capital gains.

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

#### *Status of the REIT*

##### Mutual Fund Trust

This summary is based on the assumption that the REIT qualifies, and will continue to qualify, as a "mutual fund trust" as defined in the Tax Act. If the REIT were not to qualify as a mutual fund trust, the income tax considerations described in this summary (including the summary of the tax considerations applicable to the Reorganization) would, in some respects, be materially different.

In order to qualify as a mutual fund trust, among other requirements the REIT cannot reasonably be considered to have been established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Under draft legislation that was released on September 16, 2004 by the Minister of Finance (Canada), a trust will cease to qualify as a mutual fund trust if at any time after 2004 the fair market value of all units held by non-residents of Canada, or by partnerships which are not "Canadian partnerships" for purposes of the Tax Act, is

more than 50% of the fair market value of all issued and outstanding units issued by the trust where more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of property. For this purpose, a partnership would only qualify as a "Canadian partnership" at a particular time if all its members at that time are resident in Canada. There is no provision in the draft legislation which would allow for rectification of the loss of mutual fund trust status.

On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion to implement certain measures proposed in the September 16, 2004 draft amendments, which Notice did not include the proposed changes referred to in the preceding paragraph. In a concurrent release, the Department of Finance announced that implementation of the proposed changes would be suspended so as to allow further consultation with interested parties.

#### Qualified Investment

Provided the REIT is a mutual fund trust within the meaning of the Tax Act, the Units will be qualified investments for Exempt Plans. If the REIT ceases to qualify as a mutual fund trust, the Units will cease to be qualified investments for such plans. Securities of the Operator (or an affiliate thereof) distributed to a Unitholder upon a redemption of Units may not be qualified investments for Exempt Plans, and this could give rise to adverse consequences to such plans or the annuitants under such plans. Accordingly, Exempt Plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Units.

#### *Taxation of the REIT*

The taxation year of the REIT is the calendar year. In each taxation year, the REIT will be 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 the portion thereof that it deducts in respect of the amounts paid or payable or deemed to be paid or payable in the year to Unitholders. 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 the REIT or if the holder is entitled in that year to enforce payment of the amount.

The REIT intends to make distributions in each year that are not less than its income for purposes of the Tax Act, including net realized capital gains, so that the REIT will generally not be liable in such year for income tax under Part I of the Tax Act. Losses incurred by the REIT cannot be allocated to holders of Units, but may be deducted by the REIT in future years in accordance with the Tax Act.

In the event the REIT 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 the REIT's tax liability for such taxation year arising in connection with the distribution of Notes of the Operator on redemption of Units. Thus, the Amended Declaration of Trust will continue to provide that any capital gains realized by the REIT as a result of such redemption may be allocated to the holders of Units redeeming their Units. The taxable portion of such capital gains must be included in the income of the redeeming holder of Units.

The Tax Act provides for a special tax on the designated income (including income from Canadian real property) of certain trusts which have designated beneficiaries (including non-resident persons and certain tax-exempt persons). This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided the REIT qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

### *Taxation of the Operator*

The Operator will not be subject to tax under the Tax Act. Each partner of the Operator, including the REIT, will be required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of the Operator, as the case may be, for its fiscal year ending in, or coincidentally with, the partner's taxation year, whether or not any of that income is distributed to the partner in the taxation year. For this purpose, the income or loss of the Operator will be computed for each fiscal year as if the Operator was a separate person resident in Canada. In computing the income or loss of the Operator, deductions may be claimed in respect of its administrative and other expenses incurred to earn income from its business or investments. The income or loss of the Operator for a fiscal year will be allocated to the partners of the Operator, including the REIT, on the basis of their respective shares of that income or loss subject to the detailed rules in the Tax Act in that regard. These rules also apply to the taxation of the Operator as a partner in the subsidiary operator partnerships.

Generally, distributions to partners in excess of the income of the Operator for a fiscal period will result in a reduction of the adjusted cost base of the partner's interest in the Operator by the amount of such excess. If, as a result, the REIT's adjusted cost base of its interest in the Operator would otherwise be a negative amount at the end of a fiscal period of the Operator, the REIT will be deemed to realize a capital gain, and the REIT's adjusted cost base of its interest in the Operator will then be nil immediately thereafter. If the Operator were to incur losses for tax purposes, the REIT's ability to deduct such losses may be limited by certain rules under the Tax Act.

### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents of the REIT, filed with securities commissions or similar authorities in Canada, are specifically incorporated by reference in this Circular:

- (a) the Annual Information Form of the REIT dated March 21, 2006;
- (b) the Management Discussion and Analysis on the REIT's consolidated financial results for the year ended December 31, 2005; and
- (c) the audited consolidated balance sheets of the REIT as at December 31, 2005, December 31, 2004 and December 31, 2003, the audited consolidated statements of income, Unitholders' equity and cash flow of the REIT for the periods ended December 31, 2005, December 31, 2004 and December 31, 2003 and the respective auditors' reports thereon.

Any statement contained in this Circular or 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 Circular to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated 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 that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose 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 a part of this Circular.

## COMPENSATION OF THE BOARD OF TRUSTEES

The Chairman's annual retainer fee is \$40,000 and the annual retainer fee for the remaining Trustees is \$30,000. In addition, the annual retainer fee for Chairs of committees ("Committees") of the Board of Trustees is \$10,000 except for the Chair of the Audit Committee whose annual retainer fee is \$12,500. Trustees are paid a fee of \$1,000 per Board of Trustees or Committee meeting attended in person and \$500 for a telephone meeting.

Trustees are paid one half of their annual retainer fee in Units (based on the volumetric weighted average trading price of the last five trading days of the quarter). The REIT has reserved a maximum of 100,000 Units for this purpose and any increase in this maximum is subject to regulatory approval and Unitholder approval, if required. The Trustees' compensation can only be changed by unanimous consent of the Trustees. In addition, Trustees, either directly or indirectly, are entitled to receive remuneration for services rendered to the REIT in any other capacity. Trustees who are employees of, and who receive salary from, the REIT are not entitled to receive any remuneration for their services as Trustees but are entitled to reimbursement of their out-of-pocket expenses. Other than the payment of one-half of the annual retainer fee being paid in units, all other fees are paid in cash. For the year ended December 31, 2005, all fees in relation to Trustee compensation totalled \$443,112.

## TRUSTEE ATTENDANCE RECORD

During the 2005 fiscal year, there were a total of 31 Trustee and committee meetings as outlined in the following table:

Directors	Board Meetings Attended	Committee	Committee Meetings Attended	Total Meetings Attended
Frank Anderson <sup>(1)(2)(4)</sup>	17 of 17 Meetings	Audit	10 of 10	27
Morton G. Gross <sup>(1)(3)(4)</sup>	15 of 17 Meetings	Governance	4 of 4	19
Michael P. Kitt <sup>(1)(2)(3)(4)</sup>	17 of 17 Meetings	Audit Governance	10 of 10 4 of 4	31
Minhas N. Mohamed <sup>(1)(2)(3)(4)</sup>	15 of 17 Meetings	Audit Governance	10 of 10 4 of 4	29
Brian C. Collyer <sup>(1)(5)</sup>	13 of 17 Meetings	—	—	13
Majid Mangalji <sup>(1)</sup>	16 of 17 Meetings	—	—	16
Lauren J. Zucker <sup>(1)(5)</sup>	14 of 17 Meetings	—	—	14

Notes:

(1) Member of the Investment Committee. For the year end December 31, 2005, there were no separate meetings of the Investment Committee; all Investment Committee matters were discussed at meetings of the Board of Trustees.

(2) Member of the Audit Committee

(3) Member of the Compensation and Corporate Governance Committee

(4) Independent Trustee

(5) Resigned as a Trustee on December 8, 2005

## CORPORATE GOVERNANCE PRACTICES

Effective corporate governance is a priority for the Board of Trustees. During the past year, there have been several changes to the corporate governance disclosure requirements applicable to the REIT. Specifically, the Board of Trustees has taken into account the new rules and guidelines adopted by the Canadian Securities Administrators ("CSA") in June 2005 (National Instrument 58-101 — *Disclosure of Corporate Governance Practices* ("NI 58-101") and National Policy 58-201 — *Corporate Governance Guidelines*) (the "CSA Governance Requirements"), which require the REIT to disclose certain information relating to its corporate governance practices. This information is set out in Schedule A to this Circular. The CSA Governance Requirements replace the previous Toronto Stock Exchange corporate governance guidelines applicable to the REIT.

The CSA Governance Requirements set out 9 best practices drawn from existing Canadian standards and recently enacted U.S. regulatory standards in the following areas: (i) board independence, (ii) the role of the board generally, (iii) the role of the board in the issuer's ethical framework, (iv) board effectiveness, (v) the nomination of directors and (vi) the setting of executive compensation. The REIT is required to describe certain aspects of its corporate governance practices in its annual information form, including a discussion of any practices that are inconsistent with the CSA Governance Requirements.

During the past two years, the CSA has also introduced and revised the new rules regarding the composition of audit committees (Multilateral Instrument 52-110 – *Audit Committees*) and the certification of an issuer's disclosure controls and procedures (Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*). The REIT is currently in compliance with these new rules. For the year ended December 31, 2005, the REIT was required to file a certificate to certify that the REIT established appropriate disclosure controls and procedures and that management has evaluated the effectiveness of these controls and procedures. A similar certificate is also required for quarterly reports, which will certify the REIT's disclosure controls and procedures. Starting in 2006, the REIT will also be required to file a certificate for the year ended December 31, 2006 that will require the Chief Executive Officer and the Chief Financial Officer to additionally certify that management has appropriately designed internal control over financial reporting, and has disclosed in the MD&A material changes relative to this system of controls.

In this Circular and in the attached Schedule A, the term "independent" Trustee has the corresponding meaning given to the term "independent" director NI 58-101; namely, a Trustee who has no direct or indirect material relationship with the REIT which could, in the view of the Board of Trustees, be reasonably expected to interfere with the exercise of the Trustee's independent judgement. A majority of the current Trustees, and all of the nominees standing for election as Trustees, are "independent" within the meaning of NI 58-101.

#### **INDEPENDENT TRUSTEE MATTERS**

In addition to requiring the approval of a majority of the Trustees, approval of not less than 66 $\frac{2}{3}$ % of the independent Trustees who have no interest in the matter is required with respect to any decision:

- (a) to make a material change to the Management Agreement or the administrative services agreement between the REIT and the Manager or the administrative services agreement between the Operator and the Manager (the "Administrative Services Agreements"), change the fees payable to the Manager, renew the Management Agreement or the Administrative Services Agreements at the end of their respective terms or appoint a substitute for the Manager after the end of the term of the Management Agreement;
- (b) to enter into any agreement or transaction in which any related party of the REIT has a material interest or make a material change to any such agreement or transaction;
- (c) relating to a claim by or against any related party of the REIT;
- (d) relating to a claim in which the interests of a person referred to in paragraph (c) above differ from the interests of the REIT;
- (e) to increase the number of the Trustees by no more than one-third in accordance with the Declaration of Trust and to appoint Trustees to fill the vacancies so created;
- (f) to recommend to the Unitholders that the number of Trustees be increased, where a vote of Unitholders thereon is required, and to nominate individuals as Trustees to fill the vacancies so created;
- (g) to acquire any real or other property in which a related party of the REIT has an interest or to sell any interest in any real or other property to a related party of the REIT;

- (h) to make any changes in compensation of an employee who is also an employee of a related party;
- (i) to grant options to purchase Units under any Unit option plan approved by the Trustees or to award any right to acquire or other right or interest in Units or securities convertible into or exchangeable for Units under any plan approved by the Trustees; and
- (j) to approve or enforce any agreement entered into by the REIT with a Trustee who is not an independent Trustee or an associate thereof, with a related party of the REIT, or with the Manager or any successor as hotel manager under the Management Agreement.

### **COMMITTEES OF THE BOARD OF TRUSTEES**

There are currently the following three Committees of the Board of Trustees: the Investment Committee, the Audit Committee and the Compensation and Corporate Governance Committee.

#### **Investment Committee**

All of the Trustees were members of the Investment Committee for the fiscal year ended December 31, 2005 (Lauren J. Zucker and Brian C. Collyer were members until they resigned as Trustees on December 8, 2005). The Investment Committee's primary duties and responsibilities include: (i) reviewing and approving or rejecting proposed acquisitions and dispositions of investments by the REIT, (ii) authorizing proposed transactions, and (iii) approving all financing arrangements and the assumption or granting of mortgages.

#### **Audit Committee**

The current members of the Audit Committee are Frank Anderson, Michael P. Kitt and Minhas N. Mohamed, all of whom are independent Trustees. The Audit Committee's primary duties and responsibilities include: (i) reviewing the REIT's internal control procedures with the auditors and management, (ii) reviewing the engagement and the independence of the REIT's auditors, (iii) reviewing and recommending to the Trustees for their approval the annual and quarterly financial statements and management's discussion and analysis of financial condition and results of operation, and the disclosure of other financial information, and (iv) reviewing and discussing changes to and the application of accounting principles with management and the auditors.

#### **Compensation and Corporate Governance Committee**

The current members of the Compensation and Corporate Governance Committee are Morton G. Gross, Michael P. Kitt and Minhas N. Mohamed, all of whom are independent Trustees. The primary duties and responsibilities of the Compensation and Corporate Governance Committee include: (i) developing the corporate governance policy of the Board of Trustees, and (ii) developing the REIT's human resources and compensation policies.

### **STATEMENT OF EXECUTIVE COMPENSATION**

#### **Summary Compensation Table for Named Executive Officers**

The table below sets forth the compensation paid by the REIT to the REIT's Chief Executive Officer, Chief Financial Officer and to the REIT's next most highly compensated Executive Officer (the "Named Executive Officers") for services rendered in all capacities to the REIT in respect of the years ended December 31, 2005, December 31, 2004 and December 31, 2003.

<b>Name and Principal Position</b>	<b>Year</b>	<b><u>Annual Compensation</u></b>			<b><u>Payouts</u></b>
		<b>Salary<sup>(1)(2)</sup> (\$)</b>	<b>Bonus (\$)</b>	<b>Other Annual Compensation<sup>(3)</sup> (\$)</b>	<b>LTIP<sup>(4)</sup> Payouts<sup>(5)</sup> (\$)</b>
Kenneth D. Gibson	2005	\$190,053	\$111,740	\$43,788	\$206,025
President and Chief	2004	\$185,400	\$104,000	\$40,576	\$168,173
Executive Officer	2003	\$180,000	\$80,000	\$37,075	\$127,027

Tamara L. Lawson	2005	\$118,272	\$51,665	Nil	\$77,258
Chief Financial Officer and Secretary	2004	\$115,875	\$50,000	Nil	\$63,063
	2003	\$112,500	\$37,000	Nil	\$47,638
Ken Purdy <sup>(6)</sup>	2005	\$44,504	Nil	Nil	Nil
Vice President, Corporate Development	2004	\$170,000	\$32,640	Nil	Nil
	2003	\$170,000	\$32,640	Nil	Nil

Notes:

- (1) Compensation paid by the REIT pursuant to the Named Executive Officers' employment agreements. Mr. Gibson and Ms. Lawson are required to devote at least 50% of their time to managing the affairs of the REIT. See "Employment Agreements".
- (2) Ken Purdy's salary in 2003 is annualized to take into account the fact that his employment began in October 2003.
- (3) Mr. Gibson's compensation includes equalization payments made to compensate for the personal taxation difference between what his after-tax income would be in the United States of America as opposed to Canada. The equalization payment is a benefit to which Mr. Gibson is entitled as a result of his employment agreement with the REIT.
- (4) The long-term incentive plan of the REIT.
- (5) Restricted units that have vested under the REIT's executive incentive plan. See "Executive Incentive Plan". In 2002, Mr. Gibson and Ms. Lawson were credited with 36,000 and 13,500 Units, respectively, in respect of the initial public offering of the REIT. In 2003, Mr. Gibson and Ms. Lawson were credited with 12,338 and 5,508 Units, respectively, and in respect of their performance in 2002. In 2004, Mr. Gibson and Ms. Lawson were credited with 6,987 and 3,231 Units, respectively, in respect of their performance in 2003. In 2005, Mr. Gibson and Ms. Lawson were credited with 8,859 and 4,259 Units, respectively, in respect of their performance in 2004. In 2006, Mr. Gibson and Ms. Lawson were credited with 8,868 and 4,100 Units, respectively, in respect of their performance in 2005. The restricted units granted in 2003, 2004 and 2005 vest equally on the third and fourth anniversaries of the effective date of grant. The restricted units granted in 2002 vest in three equal annual instalments. Mr. Gibson and Ms. Lawson are granted additional restricted units in respect of distributions paid on the grant of restricted units. These additional restricted units vest in the same proportion as the original grant of restricted units. In 2005, Mr. Gibson and Ms. Lawson were credited with 3,989 and 1,759 restrictive units, respectively, for distributions paid on the Units. In 2004, Mr. Gibson and Ms. Lawson were credited with 4,603 and 1,901 restricted units, respectively, for distributions paid on the Units. In 2003, Mr. Gibson and Ms. Lawson were credited with 5,677 and 2,241 restricted units, respectively, for distributions paid on the Units. During 2002, Mr. Gibson and Ms. Lawson were credited with 1,533 and 575 restricted units, respectively, for distributions paid on the Units.
- (6) Ken Purdy resigned from his position in March 2005 and therefore did not receive a payment of restricted units. See "Executive Incentive Plan."

#### LTIP Awards Table for Named Executive Officers

The LTIP awards made for each Named Executive Officer of the REIT during the year ended December 31, 2005 are summarized in the table below.

<u>Name and Principal Position</u>	<u>Restricted Units<sup>(1)</sup></u>	<u>Payment Date<sup>(2)</sup></u>
Kenneth D. Gibson Chief Executive Officer	12,857	50% to vest on January 1, 2008 and 50% to vest on January 1, 2009
Tamara L. Lawson Chief Financial Officer	5,860	50% to vest on January 1, 2008 and 50% to vest on January 1, 2009
Ken Purdy Vice President, Corporate Development	Nil <sup>(3)</sup>	Not applicable

Notes:

- (1) The restricted units shown reflect Units granted in relation to performance in 2005 as well as Units granted in respect of distributions paid on the grant of restricted units from prior periods.
- (2) Payment date reflects the vesting period of the restricted units granted in 2005 except for Units granted in respect of distributions paid on the grant of restricted units, which vest over the same vesting period of the original grant of Units.
- (3) Ken Purdy resigned from his position in March 2005 and therefore did not receive a payment of restricted units. See "Executive Incentive Plan."

## EXECUTIVE INCENTIVE PLAN

### Description of Executive Incentive Plan

The Named Executive Officers participate in the REIT's executive incentive plan (the "Executive Incentive Plan") pursuant to which they may be granted restricted units from time to time. Restricted units vest pursuant to a schedule that has been approved by the Trustees. Each restricted unit entitles the holder to receive a payment on the vesting date, payable in Units based on their then current market value, equal to the then current market value of one Unit plus the value of the cash distributions that would have been paid on one Unit if it had been issued on the date of grant of the restricted unit, assuming the reinvestment of these distributions in Units. The REIT has reserved a maximum of 1,000,000 Units for issuance under the Executive Incentive Plan, and any increase in this maximum or other amendment to the Executive Incentive Plan is subject to regulatory approval and to Unitholder approval, if required. As at December 31, 2005, there were 112,977 restricted units issued and outstanding, representing 0.21% of the REIT's currently outstanding Units on an as-converted, fully-diluted basis.

Any officer or senior employee of the REIT or a subsidiary of the REIT who has been designated by the Compensation and Corporate Governance Committee and who has agreed to participate in the Executive Incentive Plan on terms specified by the REIT (each such individual, a "Participant") is eligible to participate in the Employee Incentive Plan. The Employee Incentive Plan gives Participants the right, subject to certain terms and conditions, to receive restricted units on the date stipulated at the time of the grant of the restricted unit, or such date as may be changed from time to time in the discretion of the Compensation and Corporate Governance Committee (the "Payment Date").

Under the Executive Incentive Plan, if a Participant ceases to be employed by the REIT or any of its subsidiaries for any reason other than death, long-term disability, retirement or as a result of the termination of the Participant's employment by the REIT or its subsidiary other than for cause, all rights granted to such Participant under all restricted units for which the Payment Date has not yet occurred will immediately be forfeited.

If a Participant ceases to be an employee of the REIT or any of its subsidiaries by reason of the termination of the Participant's employment by the REIT or its subsidiary other than for cause, any restricted units granted to such Participant for which the Payment Date has not occurred but whose Payment Date will occur no later than one year following the date of the termination notice given to the Participant will continue to be outstanding and, unless otherwise agreed by the REIT or determined by the Compensation and Corporate Governance Committee, all other restricted units will be immediately forfeited.

If a Participant dies or ceases to be an employee of the REIT or any of its subsidiaries by reason of long-term disability or retirement or for any other reason specified by the REIT, in its sole discretion, the Payment Date for all restricted units granted to such Participant will be determined by the REIT in its sole discretion. In this circumstance, the Payment Date will be no later than the original Payment Date for the restricted units and the first year anniversary of the Participant's death or termination of employment.

### Securities Authorized for Issuance Under the Executive Incentive Plan

The table below sets forth the securities of the REIT which were authorized for issuance under the Executive Incentive Plan as at December 31, 2005.

<u>Plan Category</u>	<u>Number of restricted units originally reserved for issuance</u>	<u>Number of restricted units which have vested under the Executive Incentive Plan</u>	<u>Number of restricted units which have been granted but not vested under the Executive Incentive Plan</u>	<u>Number of Units remaining available for future issuance under the Executive Incentive Plan</u>
Equity compensation plans not approved by Unitholders <sup>(1)</sup>	1,000,000	61,737	51,240	887,023

Notes:

- (1) The Executive Incentive Plan was adopted prior to the REIT's initial public offering, was approved by the Board of Trustees and was the only equity compensation plan of the REIT in existence as at December 31, 2005.

## EMPLOYMENT AGREEMENTS

On July 25, 2002, Tamara Lawson and Kenneth D. Gibson, each of whom is a Named Executive Officer, entered into employment agreements with the REIT for an indeterminate term. On September 10, 2003, Ken Purdy, who was a Named Executive Officer of the REIT during the year ended December 31, 2005, entered into an employment agreement with the REIT for an indeterminate term. Mr. Purdy ceased to be an employee of the REIT as of March 11, 2005.

Each of the Named Executive Officers' employment agreements provides for the Named Executive Officer's base salary, performance-based bonuses and benefit commitments by the REIT. Mr. Gibson's and Ms. Lawson's employment agreements contain termination and severance provisions, described below, as well as non-competition covenants in favour of the REIT.

Mr. Purdy's employment agreement provided for an annual base salary and an annual target bonus of 30% of his base salary. Mr. Purdy was entitled to participate in the Executive Incentive Plan after his first year of employment. Bonuses to Mr. Purdy under his employment agreement were based the REIT's performance and Mr. Purdy's individual performance, and were within the sole discretion of the REIT. If the REIT had terminated Mr. Purdy's employment without cause during his first two years of employment with the REIT, the REIT would have been required to pay six months salary and target bonus as compensation for the time required for Mr. Purdy's job transition. Mr. Purdy voluntarily resigned his position with the REIT on March 11, 2005 and was, therefore, not entitled to any severance payments under his employment agreement with the REIT.

Ms. Lawson's employment agreement provides for an annual base salary and a proportionate allocation of 50% of Ms. Lawson's working day to managing the affairs of the REIT), subject to any increase the Board of Trustees, in its sole discretion, may determine from time to time following its annual review of Ms. Lawson's base salary.

In addition to her annual base salary, Ms. Lawson is eligible for an annual cash performance bonus in an amount up to 50% of her base salary. The performance criteria and target performance levels for the cash performance bonus are established by the Compensation and Corporate Governance Committee in consultation with Ms. Lawson prior to the beginning of each financial year. Ms. Lawson is entitled to be granted restricted units under the Executive Incentive Plan, as determined in accordance with the formula set forth in her employment agreement.

If Ms. Lawson is terminated by the REIT without cause, Ms. Lawson is entitled to receive any accrued and unpaid base salary, vacation pay and unpaid reimbursements and a lump-sum amount equal to 1.25 times her then current base salary, less any amounts owing by Ms. Lawson to the REIT. Ms. Lawson is also entitled to participate in and receive benefits under any benefit plans of the REIT, as well as the Executive Incentive Plan, for one year after the REIT terminates her employment without cause.

Mr. Gibson's employment agreement provides for an annual base salary and a proportionate allocation of 50% of Mr. Gibson's working day to managing the affairs of the REIT), subject to any increase the Board of Trustees, in its sole discretion, may determine from time to time following its annual review of Mr. Gibson's base salary.

In addition to his annual base salary, Mr. Gibson is eligible for an annual cash performance bonus in an amount up to 70% of his base salary and equalization payments made to compensate for the personal taxation difference between what his after-tax income would be in the U.S. as opposed to Canada. The performance criteria and target performance levels for the cash performance bonus are established by the Compensation and Corporate Governance Committee in consultation with Mr. Gibson prior to the beginning of each financial year. Mr. Gibson is entitled to be granted restricted units under the Executive Incentive Plan, as determined in accordance with the formula set forth in his employment agreement.

If Mr. Gibson is terminated by the REIT without cause or terminates his employment for "good reason" (defined as (i) the assignment to Mr. Gibson of duties materially inconsistent with his position as President and Chief Executive Officer of the REIT which results in a material diminution in his authority, duties or responsibilities, or (ii) any material failure by the REIT to comply with any other terms of Mr. Gibson's employment agreement that is not remedied within 30 days), Mr. Gibson is entitled to receive any accrued and unpaid base salary, vacation pay and

unpaid reimbursements and a lump-sum amount equal to 2.0 times his then current base salary, less any amounts owing by Mr. Gibson to the REIT. Mr. Gibson is also entitled to participate in and receive benefits under any benefit plans of the REIT, as well as the Executive Incentive Plan, for one year after the REIT terminates his employment without cause or Mr. Gibson terminates his employment for good reason.

### **COMPOSITION OF THE COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE**

The Compensation and Corporate Governance Committee of the REIT for the year ended December 31, 2005 was composed of Morton Gross, Q.C., Michael P. Kitt and Minhas N. Mohamed.

### **REPORT ON EXECUTIVE COMPENSATION**

It is the responsibility of the Compensation and Corporate Governance Committee to review and recommend to the Board of Trustees annually the compensation proposed to be paid to the Executive Officers and to make recommendations to the Board of Trustees concerning annual bonus levels and grants under the REIT's long-term incentive plans. The Compensation and Corporate Governance Committee also reviews such human resources and compensation issues as it considers appropriate, and retains consultants from time to time to provide advice regarding the REIT's compensation strategy and programs.

#### **Compensation Policies**

The major elements of the REIT's executive compensation policies are base salary, a short-term incentive in the form of an annual cash bonus and a long-term incentive program. The Compensation and Corporate Governance Committee believes that this approach best serves the interests of Unitholders by ensuring that Executive Officers are compensated in a manner that addresses both the short and long-term interests of Unitholders. The annual cash bonus is based primarily on the REIT's short-term performance and the issuance of restricted units is based on the REIT's long-term performance. Annual cash bonuses and long-term incentive grants can also be based, in part, on an evaluation of the contributions made by the Executive Officer to the REIT's performance. The applicable performance measures are established by the Compensation and Corporate Governance Committee on an annual basis.

#### **Base Salary**

Annual base salary levels for the Executive Officers are established by reference to the range of salaries paid by other Canadian REITs with the intention that the maximum base salary be within a reasonable range of the average of the other Canadian REITs. The Chief Executive Officer and Chief Financial Officer of the REIT have employment contracts which provide for a specified minimum annual salary subject to such increases as the Board of Trustees determines appropriate. See "Employment Agreements."

#### **Annual Cash Bonus**

The Compensation and Corporate Governance Committee establishes the amount of the bonus to be paid and this is determined annually based on pre-set goals that are tied to Distributable Income above specified threshold levels and the achievement of personal goals. The full bonus is awarded if the target levels of performance are exceeded.

#### **Long-Term Incentives**

The Compensation and Corporate Governance Committee believes that a material portion of total compensation must be aligned with the REIT's long-term objective which is to maximize the long-term value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are accretive to earnings and cash flow. On completion of the REIT's initial public offering in 2002, each of Kenneth D. Gibson and Tamara Lawson was granted restricted units pursuant to the Executive Incentive Plan. These initial restricted units vest in three equal annual instalments. In addition, those Named Executive Officers are granted additional restricted units in respect of distributions paid on the grants of restricted units. These additional restricted units vest in the same proportion as the original grant of restricted units. Each year, the Compensation and Corporate Governance Committee determines the number of restricted units to be granted to each of the Named Executive Officers based

on each of their anticipated contributions to the long-term growth of the REIT. These restricted units vest at a rate of 50% on each of the third and fourth anniversary of the date of grant.

#### **Allocation of Executive Compensation to the REIT**

Kenneth Gibson and Tamara Lawson are also employed by the Manager. They are compensated separately by the REIT and the Manager for their respective roles. The total base salary paid by the REIT presupposes that each of Mr. Gibson and Ms. Lawson allocate 50% of their time to the REIT. The amounts indicated in the summary compensation table for these Named Executive Officers, under "Statement of Executive Compensation", are only in respect of amounts paid to them by the REIT. This approach ensures that each of Mr. Gibson and Ms. Lawson are appropriately compensated for their performance at the REIT and provides better alignment between the Unitholders' interests and that of these Named Executive Officers.

#### **Bonuses Awarded and Restricted Units granted to the Named Executive Officers in 2005**

During the year ended December 31, 2005, seventy-five percent of the cash performance bonus was based on the REIT having achieved a target that was approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee, relating to the actual Distributable Income in comparison to a budgeted distributable amount. Twenty-five percent of the cash performance bonus was based on certain personal performance goals which were approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee.

For the year ended December 31, 2005, the grant of restricted units under the Executive Incentive Plan was based on the same criteria as reflected above in the determination of the cash performance bonus. The Board of Trustees concluded, based on the recommendation of the Compensation and Corporate Governance Committee, that these performance measures appropriately reflected the Executive Officers' contribution to maximizing the long-term value of the REIT.

#### **Compensation of the Chief Executive Officer**

Prior to the REIT's initial public offering in 2002, the Board of Trustees approved a compensation package for Mr. Gibson, the Chief Executive Officer of the REIT. Since the REIT's initial public offering, no material changes have been made to Mr. Gibson's compensation package.

During the financial year ended December 31, 2005, the Board of Trustees approved an increase in Mr. Gibson's salary to account for inflation. Mr. Gibson also received a cash performance bonus and was granted restricted units under the Executive Incentive Plan as compensation for his services to the REIT.

The amount of Mr. Gibson's cash performance bonus received for services rendered during the financial year ended December 31, 2005 was based on two criteria. seventy-five percent of the cash performance bonus was based on the REIT's achievement of a target that was approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee, relating to the actual Distributable Income per unit of the REIT in comparison to budgeted Distributable Income per unit amount. Twenty-five percent of Mr. Gibson's cash performance bonus was based on certain personal performance goals which were approved by the Board of Trustees, on the recommendation of the Compensation and Corporate Governance Committee.

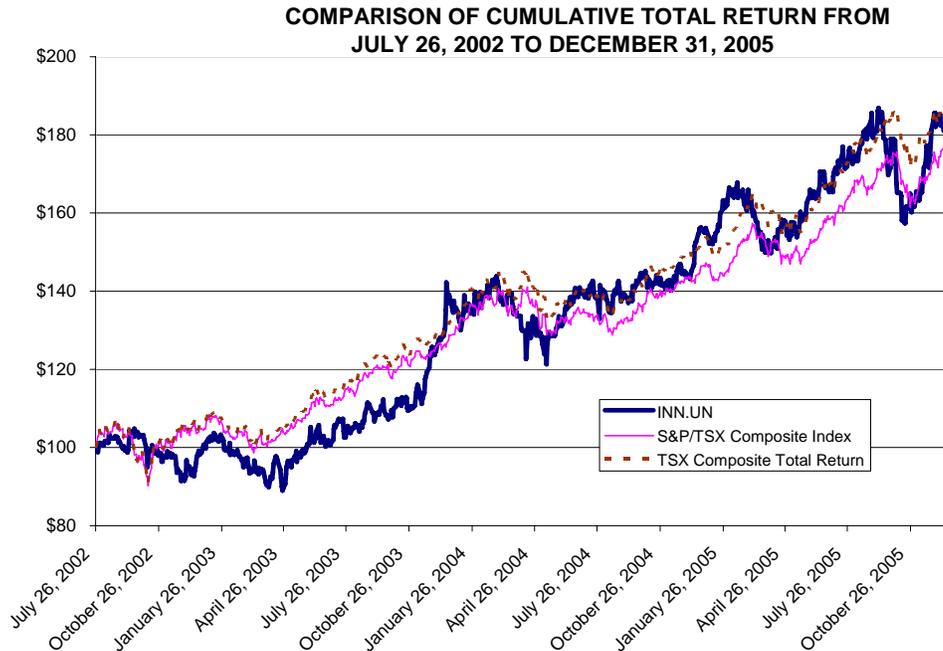
For the year ended December 31, 2005, the grant of restricted units under the Executive Incentive Plan was based on the same criteria as reflected above in the determination of Mr. Gibson's cash performance bonus. The Board of Trustees concluded, based on the recommendation of the Compensation and Corporate Governance Committee, that these performance measures appropriately reflected Mr. Gibson's contribution to maximizing the long-term value of the REIT.

This report is submitted by the members of the Compensation and Corporate Governance Committee.

Morton G. Gross, Chair  
Michael P. Kitt  
Minhas N. Mohamed

## PERFORMANCE GRAPH

Since July 26, 2002, the Units have been listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol "INN.UN". The following graph compares the cumulative total Unitholder return for \$100 invested in Units from July 26, 2002 (assuming distributions are reinvested in Units on the day of the distribution) with the S&P/TSX Composite Index and the TSX Composite Total Return Index.



## AUDIT COMMITTEE

Information about the REIT's Audit Committee, including the full text of the Audit Committee's charter, the composition of the Audit Committee, the relevant education and experience of members of the Audit Committee and other information regarding the Audit Committee's functions and policies, and a summary of the fees paid by the REIT for external auditor services are set out under the heading "Audit Committee" in the REIT's Annual Information Form for the year ended December 31, 2005 dated March 21, 2006 available under the REIT's profile at [www.sedar.com](http://www.sedar.com), and such information is incorporated by reference herein.

## INDEBTEDNESS OF TRUSTEES, EXECUTIVE OFFICERS AND SENIOR OFFICERS

As at the date of this Circular and during the REIT's financial year ended December 31, 2005, no Executive Officer, Trustee, employee or former Executive Officer, Trustee, proposed nominee for election as Trustee (and each of their associates) or employee of the REIT was indebted to: (i) the REIT or any of its subsidiaries, or (ii) any other entity which is, or was at any time during the REIT's financial year ended December 31, 2005, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the REIT or any of its subsidiaries.

## TRUSTEES' AND OFFICERS' INSURANCE AND INDEMNIFICATION

The REIT maintains insurance for the benefit of its Trustees and officers against liability in their respective capacities as Trustees and officers. The annual premium paid and expensed by the REIT in respect of such insurance

was \$345,800. There is a per loss deductible of \$250,000, a securities claim deductible of \$250,000, and no deductible for claims under this insurance policy for Trustees and officers as it relates to non-indemnifiable claims. As of the date of this Circular, no claim has ever been presented or paid under this policy.

The Declaration of Trust provides that the REIT shall indemnify the Trustees against all liabilities, damages, losses, debts and claims whatsoever, including costs, charges and expenses in connection therewith, incurred by the Trustee in respect of any action to which the Trustee was made a party in relation to the execution of his or her duties as a Trustee, if the Trustee acted honestly and in good faith with a view to the best interests of the REIT or, in the case of a criminal or administrative action or proceeding that is enforced by monetary penalty, the Trustee had reasonable grounds for believing that his or her conduct was lawful.

## **INTERESTS OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

### **General**

The Declaration of Trust of the REIT contains "conflict of interest" provisions that are intended to provide certain protections to Unitholders without creating undue limitations on the REIT. Given that the Trustees are engaged in a wide range of activities, the Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each Trustee or officer of the REIT to disclose to the REIT any interest in a material contract or transaction or proposed material contract or transaction with the REIT (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture arrangement) or the fact that such person is a trustee, director or officer of, or otherwise has a material interest in, any person or entity who is a party to a material contract or transaction or proposed material contract or transaction with the REIT. Such disclosure is required to be made at the first meeting at which a proposed contract or transaction is considered. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the Trustees, a Trustee or an officer of the REIT is required to disclose in writing to the REIT, or request to have entered into the minutes of meetings of Trustees, the nature and extent of his or her interest forthwith after such Trustee or officer of the REIT becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee or officer who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to his or her remuneration as a Trustee, officer, employee or agent of the REIT or one for indemnity under the provisions of the Declaration of Trust or liability insurance.

The Declaration of Trust contains provisions to address potential conflicts of interest arising between the REIT and any related party. Among other things, the REIT must obtain a valuation in respect of any property that it intends to purchase from or sell to a related party by a valuator engaged by, and prepared under the supervision of, a committee of two or more independent Trustees who have no interest in such transaction. In addition, each transaction between the REIT and a related party must be on commercially reasonable terms and requires the approval of at least 66⅔% of the REIT's independent Trustees who have no interest in such transaction.

### **Master Hotel Management Agreement**

In connection with the formation of the REIT, the Operator entered into the Management Agreement with the Manager (Westmont Hospitality Canada Limited, 5090 Explorer Drive, 7th Floor, Mississauga, Ontario, L4W 4T9), under which the Manager is responsible for the management of each of the hotel businesses in the REIT. The Manager manages the hotel businesses and provides customary hotel management services, including preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, human resource management, purchasing, management and supervision of construction and technical services, information technology, franchise relations and evaluations, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the hotel properties, leasing, yield management and quality control. The Management Agreement has an initial term of 10 years, and expires on July 25, 2012. Thereafter, the Management Agreement is subject to two successive five-year renewal terms, subject to the consent of the Manager and approval by the Operator. If the REIT acquires any additional hotels during the term of the Management Agreement, the Manager will manage such additional hotels in accordance with the Management Agreement for the balance of the term of the Management Agreement.

The Management Agreement provides for the payment of an annual management fee to the Manager during the term of the Management Agreement, including renewal periods, in an amount equal to 3.375% of gross revenues from the REIT's hotel portfolio (the "Portfolio"), calculated and payable monthly. In addition, the Manager will receive an annual incentive fee. The incentive fee shall be equal to the sum of (i) 15% of the amount by which 90% of Distributable Income in any year exceeds the "First Incentive Fee Hurdle" (as described below) but is less than or equal to the "Second Incentive Fee Hurdle" (as described below), plus (ii) 20% of the amount by which 90% of Distributable Income exceeds the Second Incentive Fee Hurdle but is less than or equal to the "Third Incentive Fee Hurdle" (as described below), plus (iii) 25% of the amount by which 90% of Distributable Income exceeds the Third Incentive Fee Hurdle. For this purpose, the First Incentive Fee Hurdle is an amount equal to the product of \$1.125 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The Second Incentive Fee Hurdle is an amount equal to the product of \$1.275 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The Third Incentive Fee Hurdle is an amount equal to the product of \$1.425 per Unit multiplied by the weighted average number of Units outstanding during the relevant period. The incentive fee hurdle calculations are subject to customary anti-dilution provisions, primarily to protect the Manager, in the event of certain events including, without limitation, Unit splits, Unit consolidations, and distributions to Unitholders other than in the ordinary course of business resulting from, among other things, refinancings or asset sales. For example, such a distribution would lead to a proportional reduction in the incentive fee hurdles and, conversely, a Unit consolidation would lead to a proportional increase in the incentive fee hurdles.

In addition to the base management fee and incentive fee, the Manager is entitled to (i) reasonable fees based on a percentage of the cost of purchasing certain goods and supplies for the hotel businesses and of certain construction costs and certain capital expenditures, and (ii) fees for accounting services. The Manager is also entitled to be reimbursed for certain reasonable out-of-pocket costs and expenses incurred by the Manager in the performance of its duties under the Management Agreement, provided that such costs have been identified in a budget approved by the Operator or otherwise are approved in writing by the Operator prior to being incurred by the Manager. Majid Mangalji, who resides in Wimbledon, England, is the President of Westmont, the ultimate parent company of the Manager and Mr. Mangalji is a Trustee of the REIT. In consideration for services rendered in 2005, the Manager was paid approximately \$11 million in management fees and approximately \$3.6 million for other services.

To the knowledge of the REIT, the only "informed persons" (as such term is defined in the Securities Act) are Majid Mangalji and Fereed Mangalji (once appointed as a Trustee by the Manager), each of whom would be an informed person of the Manager if the Manager was a reporting issuer. Other than the Management Agreement described above, the REIT has not been involved with any other transactions or arrangements with the Manager or its informed persons since January 1, 2005.

#### **ADDITIONAL INFORMATION**

Additional information relating to the REIT is on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the REIT's comparative financial statements and MD&A for the financial year ended December 31, 2005.

The REIT will provide free of charge to Unitholders, upon request to its Investor Relations Liaison, a copy of:

- (i) its 2005 Annual Report, including management's discussion and analysis of financial and operating results;
- (ii) its Annual Information Form dated March 21, 2006, together with a copy of any document, or pertinent pages of any document, incorporated therein by reference;
- (iii) any document incorporated by reference in this Circular under the heading "Documents Incorporated by Reference"; and
- (iv) its comparative financial statements for the year ended December 31, 2005, together with the report of its auditors thereon, and any interim financial statements filed subsequently.

The REIT's investor relations liaison may be reached at:

5090 Explorer Drive, 7th Floor  
Mississauga, ON L4W 4T9  
Attn: Farheen Merchant, Investor Relations Liaison  
Phone: 905-206-7100  
Facsimile: 905-206-7114  
Toll Free: 1-877-209-3429 (Canada & U.S.)

Website: [www.investreit.com](http://www.investreit.com)

**BOARD OF TRUSTEES' APPROVAL**

The Board of Trustees has approved the contents and the sending of this Circular to the Unitholders.

**Kenneth D. Gibson**  
Chief Executive Officer

March 24, 2006

## SCHEDULE A

### CORPORATE GOVERNANCE DISCLOSURE

The REIT believes that effective corporate governance practices are fundamental to the overall success of a company. Effective June 30, 2005, the CSA Governance Requirements require the REIT to disclose its corporate governance practices. The CSA Governance Requirements replaced the corporate governance guidelines of the TSX.

<b>Governance Disclosure Guideline under <u>NI 58-101</u></b>	<b><u>Comments</u></b>
<b>1. Board of Trustees</b>	
(a) Disclose the identity of trustees who are independent.	The following Trustees are independent: Frank Anderson, Morton Gross, Michael P. Kitt and Minhas N. Mohamed.
(b) Disclose the identity of trustees who are not independent, and the basis for that determination.	<p>As at December 31, 2005, the only Trustee who was not independent was Majid Mangalji as he an appointee of Westmont and, as such, is deemed not to be independent by the Declaration of Trust.</p> <p>During the year ended December 31, 2005, the following two Trustees were also not independent as they were appointees of the Manager and the Whitehall Investors, respectively: Brian C. Collyer and Lauren J. Zucker. Mr. Collyer and Ms. Zucker resigned as Trustees on December 8, 2005 after the Whitehall Investors sold their remaining equity interest in the REIT.</p> <p>Fereed Mangalji, once appointed as a Trustee by the Manager, will not be considered independent.</p>
(c) Disclose whether or not a majority of trustees are independent. If a majority of trustees are not independent, describe what the board of trustees (the "board") does to facilitate its exercise of independent judgment in carrying out its responsibilities.	The Board of Trustees has determined that the majority of the Trustees are independent.
(d) If a trustee is presently a trustee of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the trustee and the other issuer.	Not applicable.
(e) Disclose whether or not the independent trustees hold regularly scheduled meetings at which members of management are not in attendance. If the independent trustees hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the	<p>The Board of Trustees and its Committees meet independently of the management when needed.</p> <p>The Compensation and Corporate Governance Committee and the Audit Committee are composed solely of independent Trustees. The Audit Committee held 11 meetings and the Compensation and</p>

**Governance Disclosure Guideline under  
NI 58-101**

**Comments**

independent trustees do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent trustees.

Corporate Governance Committee held four meetings during the fiscal year ended December 31, 2005.

The independent Trustees are authorized to retain external advisors at the expense of the REIT, as required whenever, in their opinion, matters come before the Board of Trustees which require an independent analysis by independent Trustees. The Audit Committee meets with the REIT's external auditors and the Manager's head of internal audit independently of the Board of Trustees and discusses with them the financial statements and other financial issues as deemed appropriate.

(f) Disclose whether or not the chair of the board is an independent trustee. If the board has a chair or lead trustee who is an independent trustee, disclose the identity of the independent chair or lead trustee, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead trustee that is independent, describe what the board does to provide leadership for its independent trustees.

The Chairman of the Board of Trustees is not an independent Trustee. However each of the chairmen of each of the Audit Committee and the Compensation and Corporate Governance Committee is independent and take the lead where they are responsible for a particular issue or where their expertise can be used.

(g) Disclose the attendance record of each trustee for all board meetings held since the beginning of the issuer's most recently completed financial year.

The attendance record of each Trustee for all Board of Trustees meetings held since the beginning of the fiscal year ended December 31, 2005 is set out in this Circular under the heading "Trustee Attendance Record".

**2. Mandate of the Board**

Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.

The Board of Trustees, either directly or through its Committees, is responsible for management and supervision of the business and affairs of the REIT with the objective of enhancing Unitholder value. The Board of Trustees establishes the overall policies and standards for the REIT. The Board of Trustees has delegated to management the power to manage the day-to-day business and affairs of the REIT. The Board of Trustees seeks to ensure that the REIT is managed so as to enhance Unitholder value and to ensure its long-term viability. The Trustees are kept informed of the REIT's operations at Trustees' meetings and committee meetings and through reports and discussions with management. The Board of Trustees meets on a regularly scheduled basis and, during the year ended December 31, 2005, held 17 meetings. In addition, communications between the Trustees and management occur apart from the regularly scheduled Board of Trustees or committee meetings.

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NI 58-101**

**Comments**

The Board of Trustees is actively involved in the REIT's strategic planning process. The Board of Trustees reviews the objectives of the senior executives and provides guidance for the development of the REIT's strategy. The Board of Trustees frequently discusses the REIT's strategies and their implementation at meetings of the Board of Trustees. Management must seek the Board of Trustees' approval for any transaction that would have a significant impact on the strategic plan of the REIT.

The Board of Trustees assumes responsibility for identifying and managing business risks. The Board of Trustees reviews with management the REIT's principal risks and receives reports of management's assessment of, and proposed responses to, these risks as they develop. This process ensures that the Board of Trustees as a whole actively and appropriately oversees the management of all significant risks applicable to the REIT's business. In 2003, the REIT engaged an outside advisor to work with management to perform a third party risk assessment and report its findings to management and the Trustees. The report included the identification of the business risks, prioritization of these risks, and the development of an action plan to address the significant risks. This report will be updated from time to time as deemed necessary by the Board of Trustees. The Audit Committee meets regularly to review areas of financial risk. It monitors financial risk and reporting, including controls relating to those areas.

The Board of Trustees, through its Audit Committee and Compensation and Corporate Governance Committee, is responsible for, and has implemented procedures to ensure, the timely dissemination of all material information. Material disclosure documents such as press releases, management's discussion and analysis, annual reports, annual information forms, quarterly financial statements and proxy circulars are scrutinized and, where required, approved by the Board of Trustees or one of its committees, in each case before they are publicly disseminated. Unitholders can provide feedback to the REIT in a number of ways, including e-mail or calling a toll-free telephone number.

**Governance Disclosure Guideline under  
NI 58-101**

**Comments**

The Board of Trustees reviews the REIT's communication policies that address how the REIT interacts with the public and certain measures to avoid selective disclosure. In this regard, procedures are in place to provide timely information to investors and potential investors.

The Board of Trustees, through the appointment of various committees, monitors and assesses the strengths of the REIT's internal control and management information systems. The Audit Committee has the responsibility of reviewing the REIT's procedures for internal control with the REIT's auditors and Chief Financial Officer.

**3. Position Descriptions**

(a) Disclose whether or not the board has developed written position descriptions for the chair and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.

The Declaration of Trust describes the role of the Trustees. Specifically, it provides that the Board of Trustees has full, absolute and exclusive power, control and authority over the REIT's assets and over the affairs of the REIT and may do anything that in its sole judgment and discretion it considers necessary, incidental to or desirable for the purposes of the REIT or for conducting the affairs of the REIT. The Board of Trustees acts in a supervisory role and any responsibilities not delegated to management or a Committee remain with the full Board of Trustees.

The scope of the Board of Trustees' supervisory role expressly includes such matters as the strategic planning process, identification and management of risk, succession planning, internal controls and governance. To support it in its supervisory role, the Board of Trustees expects management, among other things, to:

- undertake an ongoing review of the REIT's strategies and their implementation in light of evolving conditions;
- present an annual operating plan and regularly report on the REIT's performance and results relative to such plan;
- report regularly on the REIT's business and affairs, with a focus on matters of material consequence for the REIT and its Unitholders;
- implement systems to identify and manage the principal risks of the REIT's business; and
- implement and maintain appropriate systems of internal control.

**Governance Disclosure Guideline under  
NI 58-101**

**Comments**

(b) Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO.

A position description for the REIT's Chief Executive Officer, Kenneth D. Gibson, is set out in the terms of Mr. Gibson's employment agreement with the REIT, described under the heading "Employment Agreements". The Chief Executive Officer's objectives are reviewed by the Board of Trustees from time to time. These objectives include the general mandate to manage the REIT and to maximize Unitholder value. The limits to management's responsibilities are defined by the Board of Trustees. This is accomplished both by specifically identifying the role and responsibilities of the Chief Executive Officer and specifying that all material decisions relating to the business and operations of the REIT are to be made by the Board of Trustees or one of its Committees.

**4. Orientation and Continuing Education**

(a) Briefly describe what measures the board takes to orient new trustees regarding (i) the role of the board, its committees and its trustees, and (ii) the nature and operation of the issuer's business.

No new Trustees have been added since the inception of the REIT. In the event that new Trustees are added, the Board of Trustees intends to provide such new Trustees with an orientation. The REIT will provide its new Trustees with a program that focuses on the corporate governance system, including roles, responsibilities and liabilities of Trustees. Reports relating to the REIT's business and affairs are provided to Trustees on a regular basis.

(b) Briefly describe what measures, if any, the board takes to provide continuing education for its trustees. If the board does not provide continuing education, describe how the board ensures that its trustees maintain the skill and knowledge necessary to meet their obligations as trustees.

**5. Ethical Business Conduct**

(a) Disclose whether or not the board has adopted a written code for the trustees, officers and employees. If the board has adopted a written code: (i) disclose how a person or company may obtain a copy of the code; (ii) describe how the board monitors compliance with its code, or if the board does not monitor compliance, explain whether and how the board satisfies itself regarding compliance with its code; and (iii) provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a trustee or executive officer that constitutes a departure from the code.

The Board of Trustees has adopted a Code of Business Conduct and Ethics for the REIT (the "Code") a copy of which may be obtained, upon request, from Farheen Merchant, the Investor Relations Liaison of the REIT, by e-mail, at farheenm@innvestreit.com or by written request sent to the Investor Relations Liaison at 5090 Explorer Drive, 7th Floor Mississauga, ON L4W 4T9.

The Board of Trustees expects Trustees, officers and employees of the REIT to act ethically at all times and to acknowledge their adherence to the policies comprising the Code. The Code prohibits actions that could be considered a conflict of interest and contains provisions in respect of fair dealing, confidentiality and prohibitions and illegal or unethical behaviour and is discussed at least annually by the Compensation and Corporate Governance Committee.

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NI 58-101**

**Comments**

(b) Describe any steps the board takes to ensure trustees exercise independent judgment in considering transactions and agreements in respect of which a trustee or executive officer has a material interest.

Each Trustee must disclose all actual or potential conflicts of interest and refrain from voting on matters in which such Trustee has a conflict of interest. In addition, a Trustee must excuse himself or herself from any discussion or decision on any matter in which the Trustee is precluded from voting as a result of a conflict of interest. The matter will also be discussed by non-conflicted Trustees of the Compensation and Corporate Governance Committee.

(c) Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.

The Board of Trustees promotes consistent disclosure practices aimed at informative, timely and broadly disseminated disclosure of material information to the market, in accordance with applicable securities legislation and promotes a whistle blowing policy.

The Audit Committee has adopted a whistle blowing policy in order to provide for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters related to the REIT. The policy promotes the confidential, anonymous submission by employees of the relevant entities of concern regarding questionable accounting or auditing matters related to the REIT.

The REIT has also established a disclosure policy to assist in compliance with requirement to disclose forthwith all material information.

**6. Nomination of Trustees**

(a) Describe the process by which the board identifies new candidates for board nomination.

The REIT does not have a nominating committee. The Compensation and Corporate Governance Committee is responsible for identifying individuals qualified to become Trustees and for recommending to the Board of Trustees suitable candidates as trustees.

In undertaking this responsibility, the Compensation and Corporate Governance Committee annually assesses the skill sets of the existing Board of Trustees and Committees and identifies any additional skill sets deemed to be beneficial. The Compensation and Corporate Governance Committee, in recommending individuals as trustees, considers any selection criteria approved by the Board of Trustees as well as the competencies and skills of the existing Trustees compared to the competencies and skills the new nominee would bring to the Board of Trustees.

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If vacancies occur on the Board of Trustees, the Compensation and Corporate Governance Committee (comprised entirely of independent Trustees) recommends nominees to the Board, reviews the qualifications of prospective members and determines their relevance taking into consideration current Board of Trustees composition and the anticipated skills required to round out the capabilities of the Board of Trustees.

(b) Disclose whether or not the board has a nominating committee composed entirely of independent trustees. If the board does not have a nominating committee composed entirely of independent trustees, describe what steps the board takes to encourage an objective nomination process.

See disclosure for 6(a).

(c) If the board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.

See disclosure for 6(a).

**7. Compensation**

(a) Describe the process by which the board determines the compensation for the issuer's trustees and officers.

The compensation of the Trustees is prescribed by the Declaration of Trust and may only be changed by the unanimous consent of the Trustees. The Compensation and Corporate Governance Committee, which is composed entirely of independent trustees, annually reviews the level and nature of compensation paid to the Trustees. In making recommendations to the Board of Trustees for appropriate adjustments, the Compensation and Corporate Governance Committee considers the time commitment and risk and responsibilities of serving as a Trustee or officer of the REIT, and seeks to align the interests of the Trustees and officers of the REIT with those of and Unitholders.

(b) Disclose whether or not the board has a compensation committee composed entirely of independent trustees. If the board does not have a compensation committee composed entirely of independent trustees, describe what steps the board takes to ensure an objective process for determining such compensation.

(c) If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.

(d) If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's trustees and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.

A compensation consultant has not been retained to assist in the determination of compensation for any of the Trustees and officers of the REIT for the 2005 fiscal year.

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**Comments**

**8. Other Board Committees**

If the board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.

The Board of Trustees has an Investment Committee, composed of all of the Trustees, whose primary duties and responsibilities include: reviewing and approving or rejecting proposed acquisitions and dispositions of investments by the REIT, authorizing proposed transactions and approving all financial arrangements and the assumption of granting of mortgages.

**9. Assessments**

Disclose whether or not the board, its committees and individual trustees are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual trustees are performing effectively.

The Compensation and Corporate Governance Committee conducts an annual evaluation of the effectiveness of the Board of Trustees and its Committees. In such evaluation, the Compensation and Corporate Governance Committee assesses the operation of the Board of Trustees and its Committees, the adequacy of information provided to Trustees, communication processes between the Board of Trustees and management, agenda planning for Board of Trustees and Committee meetings and strategic planning.

**SCHEDULE B**

**RESOLUTION  
NUMBER OF TRUSTEES**

BE IT RESOLVED THAT

1. pursuant to Section 2.1 of the Amended and Restated Declaration of Trust dated July 18, 2002 (the "Declaration of Trust"), the number of Trustees of InnVest Real Estate Investment Trust (the "REIT") is hereby determined to be six; and

2. the Trustees of the REIT are empowered to determine at any time and from time to time, by resolution, the number of trustees of the REIT ("Trustees") and the number of Trustees to be elected at annual meetings of unitholders ("Unitholders") of the REIT, within the minimum and maximum numbers provided for in the Declaration of Trust, provided that the Trustees may not, between annual meetings of Unitholders, appoint an additional Trustee if, after such appointment, the total number of Trustees would be greater than one and one-third times the number of Trustees in office immediately following the last annual meeting of Unitholders. Such power shall continue in effect unless expressly revoked by resolution of the Unitholders.

## SCHEDULE C

### SPECIAL RESOLUTION APPROVAL OF PROPOSED REORGANIZATION AND AMENDMENTS TO THE DECLARATION OF TRUST

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. subject to the receipt by InnVest Real Estate Investment Trust (the "REIT") of an appropriate tax ruling from the Canada Revenue Agency, (i) the internal reorganization (the "Reorganization") of the REIT, and each of the steps and transactions contemplated thereby, or such steps and transactions as may be modified as necessary in order to effect the Reorganization as approved by the trustees of the REIT (the "Trustees") or any one officer or director of the REIT, and (ii) such amendments (the "Amendments") to the amended and restated declaration of trust of the REIT dated July 18, 2002 as, in the opinion of the Trustees, are necessary or desirable to give effect to the Reorganization, each substantially as described in the management information and proxy circular of the REIT dated March 24, 2006 (the "Circular"), are hereby authorized and approved, and the Trustees or any one officer or director of the REIT is authorized and directed, for and on behalf of the REIT, to negotiate, execute and deliver any document or instrument, and to do or cause to be done all such other acts and things, as the Trustees or such officer or director of REIT may determine to be necessary or desirable to carry out the intent of the foregoing resolution, such determination to be conclusively evidenced by the execution and delivery of such documents and instruments or the doing of such acts and things; and
  
2. notwithstanding that this special resolution has been duly passed by the unitholders of the REIT (the "Unitholders"), the Trustees may revoke this special resolution and elect not to proceed with the Reorganization or the Amendments without further approval of the Unitholders.