



**INNVEST REAL ESTATE INVESTMENT TRUST**

**ANNUAL INFORMATION FORM**

**March 22, 2013**

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*Capitalized terms that are not otherwise defined in this Annual Information Form have the respective meanings set out in Appendix A – Glossary of Terms.*

## **INFORMATION ABOUT THIS ANNUAL INFORMATION FORM**

InnVest Real Estate Investment Trust (“InnVest” or the “REIT”) is an unincorporated open-ended trust which is focused on the ownership and acquisition of hotel properties. InnVest also indirectly holds a 50% interest in Choice Canada, one of the largest franchisors of hotels in Canada, as measured by hotels under franchise.

### **Forward-Looking Statements**

Some of the statements contained or incorporated by reference herein, including those relating to InnVest strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates” or similar expressions, are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of InnVest as set forth herein. These statements are not historical facts but instead represent only InnVest’s expectations, estimates and projections regarding future events.

**THE FORWARD-LOOKING STATEMENTS CONTAINED OR INCORPORATED BY REFERENCE HEREIN ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND INVOLVE CERTAIN RISKS AND UNCERTAINTIES THAT ARE DIFFICULT TO PREDICT. THE FUTURE RESULTS AND UNITHOLDER VALUE OF INNVEST MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN THE FORWARD LOOKING STATEMENTS CONTAINED OR INCORPORATED BY REFERENCE HEREIN DUE TO, AMONG OTHER FACTORS, THE RISKS AND UNCERTAINTIES DISCUSSED HEREIN, INCLUDING THE MATTERS SET FORTH UNDER THE CAPTION “RISK FACTORS”, AND THE FACTORS DETAILED IN INNVEST’S FILINGS WITH APPLICABLE SECURITIES REGULATORS, INCLUDING THE FACTORS DETAILED IN INNVEST’S ANNUAL AND INTERIM FINANCIAL STATEMENTS AND THE NOTES THERETO. INNVEST DOES NOT UNDERTAKE ANY OBLIGATION TO UPDATE OR RELEASE ANY REVISIONS TO THESE FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS, EXCEPT AS REQUIRED BY LAW.**

### **Use of “Distributable Income”**

Distributable Income is a non-IFRS measure and there is no standardized measure of Distributable Income. Distributable Income is presented in this Annual Information Form because InnVest believes this non-IFRS measure is a relevant measure of its ability to earn and distribute cash returns to Unitholders. Distributable Income as computed by InnVest may differ from similar computations as reported by other similar entities and, accordingly, may not be comparable to distributable income as reported by such entities.

Distributable Income is defined as net income as set out in InnVest's consolidated financial statements determined in accordance with IFRS, subject to certain adjustments set out in the Declaration of Trust (as defined below), including the addition of depreciation and amortization, amortization of fair value debt adjustment and deferred income tax expense, excluding any gains or losses on the disposition of real property and deferred income tax benefits, and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements and the interest on convertible debentures that is not included in the computation of net income, and any other adjustments determined by the Trustees in their discretion.

### **Date of Annual Information Form**

This Annual Information Form is dated March 22, 2013. Except where otherwise indicated, the information contained in this Annual Information Form is stated as at December 31, 2012 and all dollars amounts are expressed in Canadian dollars.

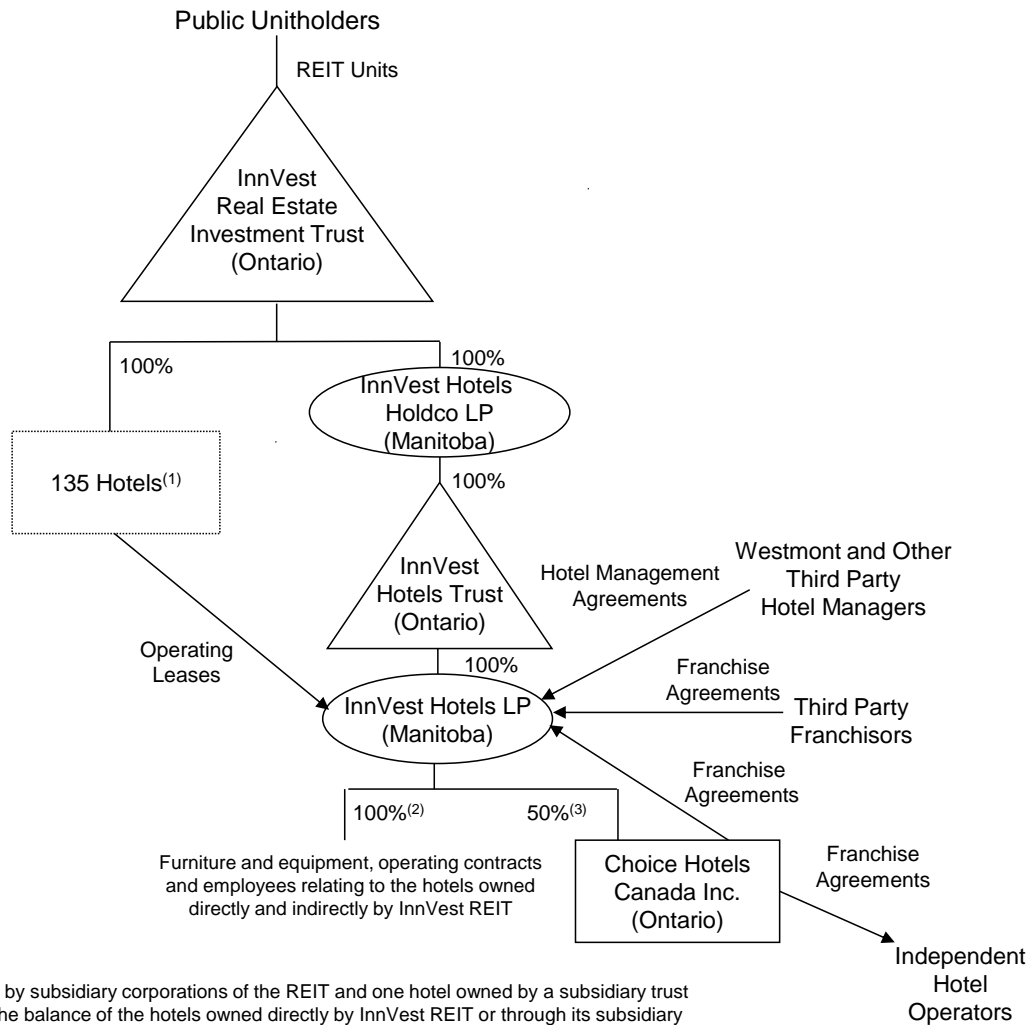
### **INNVEST REAL ESTATE INVESTMENT TRUST**

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

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

InnVest currently holds, directly and indirectly, 135 Canadian hotel properties, one of Canada's largest hotel portfolios as measured both by number of hotels and by number of guest rooms. InnVest's hotels are operated under 14 internationally recognized brands. Eighty-eight of the 135 hotels in the Portfolio are operated under franchise agreements with Choice Canada and 44 of the remaining 47 hotels are operated under franchise agreements with other franchisors.

The following diagram illustrates the primary structural and contractual relationships between InnVest and its principal subsidiaries and certain third parties as of March 22, 2013:



Notes:

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

## GENERAL DEVELOPMENT OF THE BUSINESS

### Three-Year History

The following describes major events that have influenced the general development of the business of InnVest over the last three completed fiscal years.

#### 2010

- On August 13, 2010, the REIT completed a bought deal public offering of \$75 million aggregate principal amount of 6.00% convertible unsecured subordinated debentures, Series E, due September 30, 2017. The proceeds from the offering were used to redeem the \$45.7 million outstanding 6.25% convertible unsecured subordinated debentures, Series A, due April 15, 2011, as well as to partially fund the refinancing of a mortgage maturity with the balance paid through cash on hand.
- On December 31, 2010, the REIT completed a reorganization (the “2010 Reorganization”), which was approved by Unitholders at the annual and special meeting held on June 16, 2010, in order to qualify as a “real estate investment trust” (a “Qualifying REIT”) under Canadian income tax rules applicable to specified investment flow-through entities (the “SIFT Legislation”). Under the 2010 Reorganization, the REIT transferred all of its directly and indirectly held operating assets to InnVest Operations Trust (“IOT”) and distributed non-voting trust units of IOT (“IOT Non-Voting Units”) to Unitholders on a one-for-one basis for and in addition to each REIT Unit held on December 31, 2010. The REIT Units and IOT Non-Voting Units were separately listed on the TSX on the date of distribution. “Stapled Units”, each consisting of one REIT Unit and one IOT Non-Voting Unit, were listed on the TSX and posted for trading in substitution for the REIT Units on January 4, 2011.
- On December 31, 2010, InnVest amended and restated certain instruments and agreements in connection with, or to accommodate, the 2010 Reorganization. In particular:
  - the Declaration of Trust was amended and restated to, among other things, provide for the “stapling” of the REIT Units and the IOT Non-Voting Units following the 2010 Reorganization by requiring that they must be issued, traded and redeemed in equal numbers prior to certain “events of uncoupling”;
  - the REIT adopted a third amended and restated unitholder rights plan to accommodate the Stapled Unit structure; and
  - the REIT, IOT and Computershare entered into a sixth supplemental indenture to the 2002 Indenture, providing that (a) the REIT’s convertible debentures would be convertible into Stapled Units (or, following an event of uncoupling, an equal number of REIT Units and IOT Non-Voting Units) rather than REIT Units only, and (b) IOT would be jointly and severally liable with the REIT for all obligations under the 2002 Indenture.

## **2011**

- On March 15, 2011, the REIT and IOT completed a bought deal public offering for \$50 million aggregate principal amount of 5.75% stapled convertible unsecured subordinated debentures, Series F, due March 30, 2018 (the “5.75% Series F Stapled Debentures”) and 3,600,000 Stapled Units at a price of \$7.00 per Stapled Unit for gross proceeds of \$25.2 million. Each \$1,000 principal amount of 5.75% Series F Stapled Debentures consisted of \$850 principal amount of 5.75% convertible unsecured subordinated debentures, Series F, of the REIT (“Series F REIT Debentures”) and \$150 principal amount of 5.75% convertible unsecured subordinated debentures, Series F, of IOT (“Series F IOT Debentures”). Each of the REIT and IOT fully guaranteed the payment obligations of the other under the debentures. The net proceeds from the offering were used to fund capital improvements, and for general trust purposes.
- On July 20, 2011, the Minister of Finance announced changes in, among other things, the Canadian federal income tax treatment of issuers of “stapled” securities (the “Stapled Securities Rules”). The changes would have resulted in rents (and certain other amounts) that were paid by IOT to the REIT after the applicable transition period (the “Transition Period”), which ended on July 20, 2012, ceasing to be deductible in computing the income of IOT for Canadian income tax purposes.
- In November 2011, InnVest adjusted its monthly distribution to \$0.0333 per Stapled Unit. The adjusted distribution represented a 20% reduction from the previous monthly distribution level of \$0.0417 per Stapled Unit. The reduction was implemented by the Trustees after careful consideration of the environment faced by InnVest and their desire to conserve liquidity to fund profit-improving capital investments throughout the Portfolio.

## **2012**

- On July 3, 2012, InnVest completed a reorganization to unwind its Stapled Unit structure in response to the Stapled Securities Rules (the “2012 Reorganization”). The 2012 Reorganization was approved by the Unitholders at a special meeting on February 23, 2012 and resulted in, among other things:
  - the occurrence of an “event of uncoupling” and the amendment and restatement of the Declaration of Trust to, among other things, remove the “stapling” provisions;
  - the transfer of substantially all of the assets and liabilities of IOT to the REIT and the cancellation of the IOT Non-Voting Units, so that (a) IOT became a wholly-owned subsidiary of the REIT with nominal remaining assets, and (b) Unitholders held one REIT Unit immediately following the 2012 Reorganization for each Stapled Unit held immediately prior to the 2012 Reorganization. The REIT Units were posted for trading on the TSX in substitution for the Stapled Units;
  - the 6.00% Series B Debentures, 5.85% Series C Debentures, 6.75% Series D Debentures and 6.00% Series E Debentures becoming convertible only into REIT

Units, rather than Stapled Units, in accordance with the terms of the 2002 Indenture;

- the Series F IOT Debentures being consolidated into the Series F REIT Debentures in accordance with the terms of the 2011 Indenture, so that only the Series F REIT Debentures were outstanding, but with an aggregate principal amount immediately following the 2012 Reorganization equal to the aggregate principal amount of the 5.75% Series F Stapled Debentures immediately prior to the 2012 Reorganization, such consolidated debentures (referred to herein as the “5.75% Series F Debentures”) being convertible only into REIT Units. The 5.75% Series F Debentures were listed and posted for trading on the TSX in substitution for the 5.75% Series F Stapled Debentures; and
- the adoption by the REIT of a fourth amended and restated unitholder rights plan solely to accommodate the unwinding of the Stapled Unit structure.

Based on the structure of the REIT and its subsidiaries following the 2012 Reorganization, the REIT would not be a Qualifying REIT under the current provisions of the Tax Act (before taking into account the proposed amendments to the test for qualification as a Qualifying REIT contained in Bill C-48, which received first reading in Parliament on November 21, 2012). Accordingly, InnVest recorded a provision for current income taxes and a deferred tax liability in the third quarter of 2012.

## **2013**

- On January 29, 2013, InnVest announced the adoption of a strategic plan designed to strengthen InnVest’s core operations, improve its balance sheet and increase long-term profitability (the “Strategic Plan”). The Strategic Plan is comprised of the following four initiatives: (a) a divestiture program to reposition InnVest’s portfolio, which is expected to result in the sale of 24 non-core properties over two years for gross sale proceeds of approximately \$185.0 million and net proceeds after debt repayment and selling costs of approximately \$60.0 million; (b) implementing a focused capital program, in which InnVest intends to invest approximately \$130.0 million over two years in certain of its hotel properties; (c) strengthening InnVest’s balance sheet; and (d) improving operations.
- On January 29, 2013, InnVest also announced that based on the substantive enactment for accounting purposes of Bill C-48, which contains favourable proposed amendments to the tests for qualification as a Qualifying REIT for Canadian income tax purposes, and InnVest’s valuation and measurement of its different categories of assets and revenues as required under these new tests, InnVest believes that it qualified as a Qualifying REIT for such purposes during 2012. As a result, InnVest reversed its previously accrued current income tax provision and substantially eliminated its deferred tax liability. In order to qualify for treatment as a Qualifying REIT for Canadian income tax purposes in any taxation year, InnVest must continuously qualify under the exception to the SIFT Legislation (the “REIT Exception”) throughout the year. There can be no assurances that such legislation will be passed in its proposed form or that InnVest will qualify for the



REIT Exception for Canadian income tax purposes for 2013 and subsequent taxation years, although management currently anticipates that it will so qualify in 2013.

- In the first quarter of 2013, InnVest completed a bought deal public offering for \$115.0 million aggregate principal amount of 5.75% convertible unsecured subordinated debentures, Series G, due March 31, 2019 (the “5.75% Series G Debentures”). The net proceeds from the offering will be used primarily to redeem the 6.00% Series B Debentures and for general working capital purposes, which may include its capital improvement program as contemplated in the Strategic Plan.

## **DESCRIPTION OF THE BUSINESS**

### **Canadian Hotel Market Overview**

The Canadian lodging industry consists of both private and public entities, which operate in an extremely diversified market under a variety of brand names. The lodging industry has several key participants:

- Owners – these participants (which include InnVest) own hotel properties and enter into agreements with third party managers (such as Westmont, Hilton, Fairmont or Delta) to manage the hotels. The branding of the hotels may be under the manager’s own brand or under a franchise agreement. Alternatively, the properties may be operated as an independent hotel (unaffiliated with any brand).
- Owners/Managers – these participants own hotels and operate their properties with their own management team. The branding of the hotels may be under the owner/manager’s own brand or under a franchise agreement. Alternatively, the properties may be operated as an independent hotel (unaffiliated with any brand).
- Managers – these participants (which include Westmont, Hilton, Fairmont and Delta) operate hotels on behalf of owners under their own brands or under a franchise agreement.
- Franchisors – these participants (which include, among others, Choice Canada and its Comfort Inn and Quality brands) own a brand and strive to grow their revenues by expanding the number of hotels in their franchise system. Franchisors provide their branded hotels with quality standards, brand recognition, marketing support and centralized reservation systems.

According to the Hotel Association of Canada, the Canadian hotel industry includes approximately 8,500 hotel properties totalling over 450,000 guest rooms and generating annual revenues of over \$16 billion. The Canadian hotel industry includes various levels of service offerings and price points. The properties range from small, independently owned and operated hotels and motels to large, full service branded hotels. Limited service hotel properties, which are properties that generally provide only limited food and beverage or other ancillary services, generate substantially all revenues from guest room rentals and tend to target more price sensitive segments of the market. A typical limited service property does not offer recreation

facilities, large meeting spaces or extensive food and beverage facilities. These hotels are typically located in close proximity to major thoroughfares and to restaurants or other service providers. Other market sectors include various types of full-service hotels which can be categorized as: mid-scale hotels, which generally target the traveller seeking some ancillary services such as a restaurant, recreation facilities or meeting space; and upscale hotels, which target the traveller seeking a higher-end hotel with a full range of services available and include luxury hotels, which target the traveller demanding an upscale hotel or resort. Within these varied levels of service, hotel ownership is significantly fragmented, with the majority of Canadian hotels, resorts and motels being family owned and operated.

## **InnVest's Assets**

### ***Hotel Portfolio***

InnVest owns one of Canada's largest hotel portfolios, as measured both by number of hotels and by number of guest rooms. The Portfolio ranges from limited service to full service hotels and operates under 14 internationally recognized brands. As at March 22, 2013, the Portfolio comprises 135 hotel properties (17,549 guest rooms) which are geographically diversified across all provinces and most major urban areas. The portfolio is further diversified by brand and customer thereby broadening InnVest's market reach and mitigating risk. For the year ended December 31, 2012, approximately 78% (2011 – 78%) of InnVest's consolidated hotel revenues were generated from room revenues. The balance of InnVest's consolidated hotel revenues were derived from ancillary services including food and beverage, parking and rental income.

Many of the hotel properties in the Portfolio are clustered in urban areas, thereby providing economies of scale and market intelligence not otherwise available to single asset owners in specific urban areas. The hotels are strategically located near major thoroughfares in urban and suburban areas, typically near demand generators such as office centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business and leisure travellers, groups, organizations and corporate clients.

InnVest's hotels are managed by four hotel management companies. Refer to "Management Structure – Master Hotel Management Agreement" and "Management Structure – Other Management Agreements". A listing of each of the hotels in the Portfolio can be found in InnVest's 2012 Annual Report which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The following table highlights the Portfolio's brand diversity as at March 22, 2013. Each brand brings name recognition, central reservation systems, marketing and customer loyalty programs and quality standards. Choice Canada brands, including Comfort Inn®, Quality Hotel®, Quality Suites®, and Quality Inn®, make up almost 45% of the Portfolio's guest rooms.

<b>BRAND</b>	<b>No. of Hotels</b>	<b>No. of Guest Rooms</b>	<b>% of Guest Rooms</b>
Comfort Inn	77	6,109	34.8%
Delta Hotels	10	2,974	16.9%
Holiday Inn/Holiday Inn Express	16	2,703	15.4%
Quality Hotel/Suites	11	1,661	9.6%
Travelodge	5	790	4.5%
Hilton Hotel	2	768	4.4%
Fairmont Hotels & Resorts	2	604	3.4%
Radisson Hotel/Suites	2	388	2.2%
Staybridge Suites	3	342	1.9%
Sheraton	1	323	1.8%
Best Western	1	130	0.7%
Hilton Garden Inn	1	120	0.7%
Hilton Homewood Suites	1	83	0.5%
Independent	3	554	3.2%
	135	17,549	100.0%

### ***Choice Canada Franchising Business***

Upon completion of InnVest's initial public offering on July 26, 2002, in addition to the Portfolio, InnVest acquired a 50% indirect interest in Choice Canada. The remaining 50% of Choice Canada is indirectly owned by Choice International, one of the largest hotel franchise companies in the world, with over 6,100 hotels and resorts in more than 30 countries under the Comfort Inn®, Comfort Suites®, Quality®, Sleep Inn®, Clarion®, Cambria Suites®, MainStay Suites®, Suburban Extended Stay®, EconoLodge®, Rodeway Inn®, MainStay Suites® brands and under its affiliation program Ascend Collection™. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems. Choice Canada branded hotels are inspected regularly to ensure quality and consistency of service. For 2012, the joint venture in Choice Canada contributed approximately \$4.1 million (2011 - \$3.6 million) in gross operating profit to InnVest.

Choice Canada, the Canadian master franchisor of the Choice brands, enjoys a prominent position in the Canadian hospitality market. With over 300 hotel properties, Choice Canada is one of the largest franchisors of hotels in Canada.

Upon the execution of an affiliation agreement between a predecessor of InnVest and Choice International in June 1993, InnVest (through its subsidiary) retained all rights to the royalty fees collected from its then existing managed portfolio of Choice branded properties, subject only to InnVest (through its subsidiary) contributing a preferred annual royalty amount to Choice Canada. The royalty arrangement continues until June 21, 2092, provided that affiliation agreement remains in place. Any new properties owned or operated by InnVest which are added

or re-branded under the Choice franchise system will be subject to the then current Choice Canada franchise fees.

With an increasing number of hotels being franchised under Choice flags, management of InnVest believes that the income stream from InnVest's 50% indirect interest in Choice Canada is a stable source of cash flow. During 2012, Choice Canada signed new agreements for 15 hotels (2011 - 18 hotels) under Choice flags in Canada. Additionally, through its ownership interest in Choice Canada, a subsidiary of the Operator participates in the approval of any new Choice branded hotels in Canada and in the removal of any defaulting franchisees.

## **Employees**

Almost 8,000 full-time and part-time employees were employed by the Operator or subsidiaries of the Operator on December 31, 2012.

Approximately 3,600 employees at 51 of the hotels in the Portfolio are unionized, comprising about 45% of the total workforce. See "Risk Factors – Potential Labour Disruptions" for more information.

## **Competition**

The lodging industry is highly competitive. InnVest's hotels compete against limited and full-service hotels in their local markets. Competitive factors in the lodging industry include room rates, quality of accommodations, name recognition, service levels and convenience of location. Demographic, geographic or other changes in the markets in which hotels owned and operated by InnVest are located may affect the operations of these hotels. InnVest's hotels are managed by experienced hotel management companies with extensive Canadian and international industry experience.

InnVest reserves between 3% and 5% of total revenues at each hotel for maintenance capital expenditures, in order to maintain the quality of its hotels so that they continue to attract customers.

The Westmont Restricted Parties have entered into a non-competition agreement with InnVest to restrict certain of their acquisition activities in the limited service sector of the Canadian hotel market. This agreement prohibits the direct or indirect acquisition by the Westmont Restricted Parties of certain Canadian limited service hotel assets unless the opportunity to acquire such assets has first been offered to InnVest in accordance with the agreements.

## **Environmental Compliance**

An independent environmental consulting firm conducted Phase I and, where appropriate, Phase II environmental site assessments on the hotels in the Portfolio prior to their acquisition by InnVest. The Phase I environmental site assessments were conducted to identify actual or potential site contamination and non-compliance with environmental laws and regulations based

on a review of available historical and current records, interviews with available site personnel and a visual inspection of each property. The completed Phase II environmental site assessments involved intrusive investigations, such as soil or water sampling and analysis. These assessments included, in some instances, asbestos sampling and preliminary site specific risk assessments. These assessments did not identify any substantial non-compliance with material environmental laws or regulations, and management of InnVest believes that the current estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions would not have a material adverse effect on InnVest's results of operations, business prospects and financial condition.

### **Seasonality**

The Canadian hotel industry is seasonal in nature. Due to the seasonal nature of operations, financial results vary throughout the year. Revenues are typically higher in the second and third quarters as compared to the first and fourth quarters due to leisure travel trends. The seasonal revenue patterns are in contrast to fixed costs such as property taxes, insurance, interest, depreciation and amortization, and corporate and administrative expenses, which are not significantly impacted by seasonal or short-term variations.

## **DESCRIPTION OF REIT UNITS AND DECLARATION OF TRUST**

### **REIT Units**

An unlimited number of REIT Units may be issued pursuant to the Declaration of Trust. Each REIT Unit represents an equal undivided beneficial interest in any distributions from 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 the termination or winding-up of the REIT. All REIT Units are of the same class with equal rights and privileges. Each whole REIT Unit entitles the holder thereof to one vote at all meetings of Unitholders. The Manager and Westmont Hospitality Group Inc., which owns in the aggregate more than 5% of the outstanding REIT Units, are currently each entitled to appoint one Trustee. See "Management Structure – Trustees and Officers".

### **Book-Based System**

The REIT Units are represented in the form of fully registered global unit certificates held by, or on behalf of, CDS Clearing and Depository Services Inc. ("CDS") as custodian of the global certificates (for its participants) and registered in the name of CDS or its nominee.

Pursuant to the Declaration of Trust, except as described below, no purchaser of a REIT Unit is entitled to a certificate or other instrument from InnVest or CDS evidencing the purchaser's ownership of the REIT Unit. Instead, REIT Units are represented only in book-entry form. Beneficial interests in REIT Units represented by the global certificates, constituting ownership of the REIT Units, are represented through book-entry accounts of institutions acting on behalf of beneficial owners, as direct and indirect participants of CDS. CDS is responsible for establishing and maintaining book-entry accounts for its participants having interests in REIT Units represented by the global certificates.

If CDS notifies the REIT that it is unwilling or unable to continue as custodian of the global certificates, or if at any time it ceases to be a clearing agency or otherwise ceases to be eligible to be the custodian of the global certificates and the REIT is unable to locate a qualified successor, or if the REIT elects to terminate the book-entry system, beneficial owners of REIT Units represented by the global certificates will receive definitive unit certificates.

### **Issuance of Units**

The Declaration of Trust provides that, subject to certain restrictions (including those described under “– Limitation on Non-Resident Ownership”), REIT Units or rights to acquire REIT Units may be issued at times, to the persons, for the consideration and on the terms and conditions that the Trustees determine. Unitholders do not have any pre-emptive rights whereby additional REIT Units proposed to be issued are first offered to existing Unitholders. New REIT 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 REIT Units in proportion to their existing holdings of REIT Units, which rights may be exercised or sold to other investors), through private placements (i.e., offerings to specific investors which are not made generally available to the public or existing Unitholders), or through the DRIP (described below under “– Distribution Reinvestment Plan”). In certain instances, the REIT may also issue new REIT Units as consideration for the acquisition of new properties or assets. The price or the value of the consideration for which REIT Units may be issued will be determined by the Trustees. Issued and outstanding REIT Units may be subdivided or consolidated from time to time by the Trustees without Unitholder approval. No certificates for fractional REIT Units will be issued and fractional REIT Units will not entitle the holders thereof to vote.

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

At no time may more than 49% of the REIT Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act) or partnerships, any number of which is a non-resident of Canada (“Non-Resident Beneficiaries”). The Trustees may require declarations as to the jurisdictions in which beneficial owners of REIT Units are resident or declarations as to whether such REIT Units are held for the benefit of Non-Resident Beneficiaries.

Pursuant to the Declaration of Trust, if the Trustees become aware that more than 49% of the REIT Units (on either a basic or fully-diluted basis) then outstanding are held, or may be held, for the benefit of Non-Resident Beneficiaries or that such a situation is imminent, the Trustees may cause the REIT to make a public announcement thereof and shall not accept a subscription for REIT Units from or issue or register a transfer of REIT Units to a person unless the person provides a declaration that the person is not a Non-Resident Beneficiary and does not hold its REIT Units for a Non-Resident Beneficiary. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the REIT Units (on either a basic or fully-diluted basis) are held for the benefit of Non-Resident Beneficiaries, the Trustees may cause the REIT send a notice to Non-Resident Beneficiaries holding REIT 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 REIT 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 REIT Units or provided the Trustees with satisfactory evidence that they are not non-residents and do not hold their REIT Units for the benefit of Non-Resident Beneficiaries within such period, the Trustees may cause the REIT to sell such REIT Units on behalf of such Unitholders and, in the interim, the voting and distribution rights attaching to such REIT Units shall be suspended. Upon such sale, the affected holders shall cease to be holders of REIT Units and their rights shall be limited to receiving the net proceeds of sale.

### **Purchases of Units**

Pursuant to the Declaration of Trust, the REIT may from time to time purchase REIT Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. If such purchases constitute an “issuer bid” under Canadian provincial securities legislation, they will be conducted in accordance with the applicable requirements thereof. In November 2011, InnVest commenced a normal course issuer bid to repurchase through the facilities of the TSX up to 8,485,405 Stapled Units, representing approximately 10% of InnVest’s public float. InnVest did not purchase any Stapled Units or REIT Units under this normal course issuer bid, which expired on November 14, 2012.

### **Redemption Rights**

Pursuant to the Declaration of Trust, REIT Units are redeemable at any time on demand by the holders thereof. A Unitholder not otherwise holding a fully registered certificate for REIT Units 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 CDS. Upon receipt of the redemption notice by the REIT, all rights to and under the REIT Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per REIT Unit (the “Redemption Price”) equal to the lesser of:

- (a) 95% of the “market price” of a REIT Unit on the principal market on which the REIT Units are quoted for trading during the 10-trading day period commencing immediately after the date on which the REIT Units were tendered to the REIT for redemption (the “Redemption Date”); and
- (b) the “closing market price” of a REIT Unit on the principal market on which the REIT Units are quoted for trading on the Redemption Date.

The aggregate Redemption Price payable by the REIT in respect of any REIT 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 REIT Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their REIT Units is subject to the limitations that: (i) the total amount payable by the REIT in respect of such REIT Units and all other REIT 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 REIT Units are tendered for redemption, the outstanding REIT 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 REIT Units; and (iii) the normal trading of REIT Units is not suspended or halted on any stock exchange on which the REIT Units are listed (or, if not listed on a stock exchange on any market on which the REIT 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 REIT Units as a result of the foregoing limitations, then the REIT Units tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a distribution *in specie* of notes issued by a subsidiary of the REIT having a fair market value, as determined by the Trustees, equal to the aggregate Redemption Price of such REIT Units. Where the REIT delivers notes on the redemption of REIT Units, the REIT may allocate to the holder thereof any capital gain or income realized by the REIT on or in connection with such delivery.

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

### **Distribution Reinvestment Plan**

InnVest has historically permitted Unitholders to reinvest cash distributions in REIT Units (or, during 2011, Stapled Units) through its distribution reinvestment plan (the “DRIP”). The DRIP was suspended in August 2011 as a result of the proposed changes to the Canadian federal income tax rules affecting issuers of stapled securities. InnVest amended and restated the DRIP on July 1, 2012 to accommodate the unwinding of the Stapled Unit structure and reinstated the DRIP following the completion of the 2012 Reorganization.

Pursuant to the DRIP, Unitholders resident in Canada and holding a minimum of 500 REIT Units may elect to have all their distributions of income of the REIT and IOT automatically reinvested in additional REIT Units at a price per REIT Unit equal to the average of the trading price on the TSX for the five trading days ending on the second trading day immediately preceding the date of a monthly distribution (the “Average Market Price”). No fractional REIT Units will be issued under the DRIP; instead, a cash adjustment based upon the Average Market Price will be paid in lieu of any fractional REIT Units otherwise issuable under the DRIP within 10 days after the distribution date. No brokerage commissions are payable in connection with the purchase of REIT Units under the DRIP and all administrative costs are borne by InnVest.

As referenced above under “– Book-Based System”, CDS is the only registered Unitholder. As such, beneficial Unitholders (i.e., individuals or entities who hold REIT Units through a broker or other intermediary participating in the CDS system) will only be entitled to enrol in the DRIP through a CDS participant (i.e., their broker or investment advisor). Statements detailing the number of additional REIT Units acquired through the DRIP will only be provided to beneficial Unitholders through CDS participants.

Proceeds from the issuance of additional REIT Units pursuant to the DRIP will be added to the working capital of the REIT.



Additional information on the DRIP can be found at [www.innvestreit.com](http://www.innvestreit.com).

## **Unitholder Rights Plan**

In order to ensure, to the extent possible, that Unitholders are treated fairly in connection with any take-over bid made for the REIT Units and to ensure that the Trustees are provided with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize Unitholder value, the Trustees determined on October 8, 2008 that it was advisable and in the best interests of the REIT to implement a unitholder rights plan (“the Original Rights Plan”). Unless it was amended, the Original Rights Plan would have expired on April 8, 2009; however, the Trustees determined that it was in the best interests of Unitholders and InnVest that the Original Rights Plan be amended and restated in order to ensure that the benefits provided to Unitholders pursuant to the plan continue to accrue to Unitholders.

The Original Rights Plan has been amended and restated four times. On February 23, 2012, Unitholders approved the adoption of the fourth amended and restated unitholder rights plan (the “Rights Plan”), which was adopted by the REIT on July 1, 2012 and will be in effect until June 16, 2013 unless earlier terminated in accordance with its terms. A copy of the Rights Plan is available at [www.sedar.com](http://www.sedar.com).

InnVest did not adopt either the Original Rights Plan or any amendment and restatement thereof in response to any specific take-over proposal, nor has it been made aware of any such proposal. The Rights Plan is designed to ensure the fair treatment of Unitholders in connection with any take-over bid and to ensure that the Trustees are provided with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize Unitholder value. The Rights Plan is similar to rights plans adopted by many other Canadian public issuers. Until the occurrence of certain specific events, the rights issued pursuant to the plan will trade with the REIT Units and be represented by the global certificates representing such units. The rights become exercisable only when a person, including any party related to it or certain persons acting jointly with it, acquires or announces its intention to acquire 20% or more of the outstanding REIT Units without complying with the “Permitted Bid” provisions of the Rights Plan. Should a non-Permitted Bid be launched, each right would entitle each holder of REIT Units (other than the acquiring person and persons related to it or acting jointly with it) to purchase additional REIT Units at a significant discount to the market price at the time. Under the Rights Plan, a Permitted Bid is a bid made to all Unitholders on identical terms and conditions that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding REIT Units, other than those owned by the offeror and certain related parties, have been tendered and not withdrawn, the offeror may take up and pay for the tendered REIT Units but must extend the bid for a further 10 days to allow all other Unitholders the opportunity to tender.

The Rights Plan is not intended to and will not prevent a take-over of InnVest. The Rights Plan does not reduce the duty of the Trustees to act honestly and in good faith and in the best interests of InnVest, and to consider on that basis any offer made for the REIT Units, nor does the Rights Plan alter the proxy mechanisms to change the Trustees, create dilution on the initial issue of the rights or change the way in which REIT Units trade.

## **Corporate Governance Provisions of the Declaration of Trust**

Although the Declaration of Trust confers upon a Unitholder many of the protections, rights and remedies that an investor would have as a shareholder of a corporation governed by the *Canada Business Corporations Act* (the “CBCA”), certain differences do exist as described below.

The Declaration of Trust includes provisions intended to limit the liability of Unitholders for liabilities and other obligations of the REIT. No statutory provisions historically confirmed the limited liability status of Unitholders in a manner comparable to shareholders of a CBCA corporation until the *Trust Beneficiaries’ Liability Act, 2004* (Ontario) was enacted in December 2004. That Act provides that Unitholders are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the REIT or the Trustees, arising after its enactment. That Act has not yet been judicially considered and it is possible that reliance on the Act by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Many of the provisions of the CBCA respecting the governance and management of a corporation have been incorporated in the Declaration of Trust. For example, Unitholders are entitled to exercise voting rights in respect of their holdings of REIT Units in a manner comparable to shareholders of a CBCA corporation and to elect Trustees and auditors; however, pursuant to the Declaration of Trust, Westmont has the right to appoint one Trustee and, pursuant to the Master Hotel Management Agreement and the Declaration of Trust, the Manager also has the right to appoint one Trustee. See “Management Structure – Trustees and Officers”. The Trustees appointed by each of Westmont and the Manager cannot be removed, other than by the party which appointed them. In addition, Unitholders are not entitled to call for the amendment of the provision of the Declaration of Trust pursuant to which the Manager and Westmont are entitled to appoint Trustees.

The Declaration of Trust also includes provisions modeled after comparable provisions of the CBCA dealing with the calling and holding of meetings of Unitholders and Trustees, the quorum for and procedures at such meetings and the right of Unitholders to participate in the decision-making process where certain fundamental actions are proposed to be undertaken. The matters in respect of which approval by Unitholders is required under the Declaration of Trust, and in particular the requirement that certain “fundamental changes” be approved by “special resolution” (both as defined in the CBCA) are generally less extensive than the rights conferred on the shareholders of a CBCA corporation. These approval rights are supplemented by provisions of applicable securities laws that are generally applicable to issuers (whether corporations, trusts or other entities) that are “reporting issuers” or the equivalent or are listed on the TSX. The Declaration of Trust includes provisions concerning trustee independence, the composition of board committees, including the audit committee, and conflicts of interest, as described under “Management Structure – Conflict of Interest Provisions”, which are based on provisions of the CBCA and are supplemented by applicable securities laws.

Unitholders do not have recourse to a dissent right under which shareholders of a CBCA corporation are entitled to receive the fair value of their shares where certain fundamental changes affecting the corporation are undertaken (such as an amalgamation, a continuance under the laws of another jurisdiction, the sale of all or substantially all of its property, a going private

transaction or the addition, change or removal of provisions restricting (i) the business or businesses that the corporation can carry on, or (ii) the issue, transfer or ownership of shares). As an alternative, Unitholders seeking to terminate their investment in the REIT are entitled to receive, subject to certain conditions and limitations, a price per REIT Unit determined in accordance with the Declaration of Trust, as described under “— Redemption Right”.

Unitholders similarly do not have recourse to the statutory oppression remedy that is available to shareholders of a CBCA corporation where the corporation undertakes actions that are oppressive or unfairly prejudicial or disregard the interests of securityholders and certain other parties. Shareholders of a CBCA corporation may also apply to a court to order the liquidation and dissolution of the corporation in those circumstances, whereas Unitholders could rely only on the general provisions of the Declaration of Trust which permit the winding up of the REIT with the approval of two-thirds of the Unitholders. Shareholders of a CBCA corporation may also apply to a court for the appointment of an inspector to investigate the manner in which the business of the corporation and its affiliates is being carried on where there is reason to believe that fraudulent, dishonest or oppressive conduct has occurred. The Declaration of Trust does not contemplate the appointment of an inspector to investigate the management or operation of the REIT or its affiliates. The CBCA also permits shareholders to bring or intervene in derivative actions in the name of the corporation or any of its subsidiaries, with the leave of a court. The Declaration of Trust does not include a comparable right of the Unitholders to commence or participate in legal proceedings with respect to the REIT.

### **Meetings of Unitholders**

The Declaration of Trust provides that meetings of Unitholders must be called and held for the appointment or removal of Trustees (except for the appointees of the Manager and Westmont), the appointment or removal of the auditors of the REIT, the approval of amendments to the Declaration of Trust, except as described below 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 the Manager or Westmont) or the auditors of the REIT must be passed by a simple majority of the votes cast by holders of REIT Units. The balance of the foregoing matters must be passed by a Special Resolution of holders of REIT Units. Meetings of holders of REIT Units will be called and held annually for the election of the Trustees and the appointment of auditors of the REIT.

A meeting of holders of REIT Units 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 REIT Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Holders of REIT Units have the right to obtain a list of holders of REIT Units to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the CBCA.

Holders of REIT Units may attend and vote at all meetings of the holders of REIT Units either in person or by proxy and a proxyholder need not be a holder of REIT Units. Two persons present in person or represented by proxy and representing in the aggregate at least 25% of the votes attaching to all outstanding REIT 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 will be terminated if called on the requisition of holders of REIT Units and otherwise will be adjourned for not less than 10 days, and at the adjourned meeting, the holders of REIT Units then present in person or represented by proxy will form the necessary quorum.

The Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of holders of REIT Units.

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

The Declaration of Trust may be amended or altered from time to time by Special Resolution of the holders of REIT Units. In addition, the Trustees may, without unitholder approval, make certain amendments to the Declaration of Trust from time to time including amendments:

- (a) 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 REIT Units;
- (b) which, in the opinion of the Trustees, provide additional protection for the holders of REIT Units;
- (c) 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 holders of REIT Units;
- (d) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws or generally accepted accounting standards; and
- (e) 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 holders of REIT Units and is necessary or desirable.

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

The REIT has been established for an indefinite term. Pursuant to the 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) requires approval of the holders of REIT Units by Special Resolution.

## **Take-over Bids**

The Declaration of Trust contains provisions to the effect that if a take-over bid (as defined in the *Securities Act* (Ontario) (the “Securities Act”)) is made for the REIT Units and not less than 90% of the REIT Units (other than REIT Units held at the date of the take-over bid by or on behalf of the “offeror” or “associates” or “affiliates” of the offeror, as such terms are defined in the Securities Act) are taken up and paid for by the offeror, the offeror will be entitled to acquire the REIT Units held by Unitholders who did not accept the offer on the terms offered by the offeror or at the fair value of such holders’ REIT Units determined in accordance with the procedures set out in the Declaration of Trust.

## **Information and Reports**

The REIT will 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 eligible to vote at such meeting all such information as is required by applicable law to be provided to such holders.

## **DESCRIPTION OF CONVERTIBLE DEBENTURES**

Subject to debt limitations and other restrictions outlined in the Declaration of Trust, the REIT may issue an unlimited number of convertible debentures pursuant to the 2002 Indenture, the 2011 Indenture and the 2013 Indenture. At December 31, 2012, the REIT has four series of convertible debentures outstanding under the 2002 Indenture: the 6.00% Series B Debentures, the 5.85% Series C Debentures, the 6.75% Series D Debentures, and the 6.00% Series E Debentures, and one series of convertible debentures outstanding under the 2011 Indenture: the 5.75% Series F Debentures.

In addition, in the first quarter of 2013, the REIT issued the 5.75% Series G Debentures pursuant to the 2013 Indenture. The convertible debentures issued under the 2002 Indenture, the 2011 Indenture and the 2013 Indenture are collectively referred to as the “Debentures”.

In November 2011, InnVest commenced a normal course issuer bid to repurchase through the facilities of the TSX up to 10% of the public float of each series of its then outstanding Debentures. No purchases were made under the normal course issuer bid which expired on November 14, 2012.

The following table summarizes the key features of the Debentures outstanding as at December 31, 2012 as well as the 5.75% Series G Debentures issued in the first quarter of 2013.

<b>Series</b>	<b>Maturity Date</b>	<b>Conversion Price</b>	<b>Principal Amount Outstanding</b>	<b>REIT Units Issuable on Conversion</b>
6.00% Series B	May 31, 2013	\$14.90	\$74,980,000	5,032,214
5.85% Series C	August 1, 2014	\$14.70	\$70,000,000	4,761,904
6.75% Series D	March 31, 2016	\$5.70	\$36,358,000	6,378,596
6.00% Series E	September 30, 2017	\$8.00	\$75,000,000	9,375,000
5.75% Series F	March 30, 2018	\$9.45	\$50,000,000	5,291,005
5.75% Series G	March 31, 2019	\$5.80	\$115,000,000	19,827,586

The 6.00% Series B Debentures and the 5.85% Series C Debentures are redeemable, in whole or from time to time in part, at the option of the REIT. On February 27, 2013, the REIT called its 6.00% Series B Debentures for early redemption and cancellation on April 1, 2013.

The 6.75% Series D Debentures are not redeemable prior to December 31, 2013, except in the event of the satisfaction of certain conditions after the occurrence of a “Change in Control” (as defined in the 2002 Indenture). From January 1, 2014 to December 31, 2014, the 6.75% Series D Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, provided that the volume-weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given exceeds 125% of the conversion price of the 6.75% Series D Debentures. On or after January 1, 2015, the 6.75% Series D Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The 6.00% Series E Debentures are not redeemable prior to September 30, 2013, except in the event of the satisfaction of certain conditions after the occurrence of a “Change in Control” (as defined in the 2002 Indenture). From October 1, 2013 to September 30, 2015, the 6.00% Series E Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, provided that the volume-weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given exceeds 125% of the conversion price of the 6.00% Series E Debentures. On or after September 30, 2015, the 6.00% Series E Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The 5.75% Series F Debentures are not redeemable on or prior to March 30, 2014, except in the event of the satisfaction of certain conditions after the occurrence of a “Change in Control” (as defined in the 2011 Indenture). On or after March 31, 2014 and prior to March 30, 2016, the

5.75% Series F Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, provided that the volume weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the conversion price of the 5.75% Series F Debentures. On or after March 31, 2016, the 5.75% Series F Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The 5.75% Series G Debentures are not redeemable on or prior to March 31, 2016, except in the event of the satisfaction of certain conditions after the occurrence of a “Change in Control” (as defined in the 2013 Indenture). On or after April 1, 2016 and prior to March 31, 2018, the 5.75% Series G Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT, provided that the volume weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the conversion price of the 5.75% Series G Debentures. On or after April 1, 2018, the 5.75% Series G Debentures will be redeemable, in whole or from time to time in part, at the option of the REIT.

The Debentures rank *pari passu* with each other and are subordinated in right of payment to all other existing and future indebtedness of the REIT other than indebtedness expressed to be *pari passu* with or subordinate in right of payment to the Debentures.

For each series of Debentures, the REIT may elect, from time to time, to satisfy its obligation to pay interest by delivering REIT Units. Also, for each series of Debentures, the REIT may, at its option, on not more than 60 days’ and not less than 30 days’ prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature, by delivering REIT Units. The number of REIT Units to be issued in respect of each Debenture will be determined by dividing the principal amount by 95% of the volume-weighted average trading price of the REIT Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be.

## **INVESTMENT GUIDELINES AND OPERATING POLICIES**

### **Investment Guidelines**

The Declaration of Trust provides that the REIT’s assets may be invested only in accordance with the following guidelines:

- (a) the REIT will invest, directly or indirectly (including through corporations, limited partnerships, general partnerships (if permitted by changes in tax laws) or trusts), in interests in real property on which hotels are situated and the hotel business conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;
- (b) notwithstanding any other provisions of the Declaration of Trust, the REIT shall not make any investment, take any action or omit to take any action that would result in: (i) the REIT not qualifying as a “unit trust” and a “mutual fund trust” for

the purposes of the Tax Act; or (ii) the REIT Units being disqualified for investment by Exempt Plans;

- (c) the REIT may invest in a joint venture arrangement with one or more third parties only if the assets owned by the joint venture and the activities of the joint venture otherwise comply with the investment guidelines and operating policies of the REIT, and:
- (i) the joint venture arrangement is one pursuant to which the REIT holds an interest in real property jointly or in common with others (“joint venturers”) either directly or through the ownership of securities of a corporation or other entity (a “joint venture entity”) as co-owner;
  - (ii) the REIT’s interest in the joint venture arrangement is not subject to any restriction on transfer other than a right of first offer, if any, in favour of the joint venturers;
  - (iii) the REIT has a right of first offer to buy the interests of the other joint venturers;
  - (iv) the joint venture arrangement provides an appropriate buy-sell mechanism to enable a joint venturer to purchase the other joint venturer’s interests or to sell its interest;
  - (v) the joint venture arrangement provides that the liability of the REIT to third parties is several and not joint and several, provided however that, subject to any remedies that each joint venturer may have against the other joint venturers, a joint venturer may be required to give up its interest in any particular property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property; and
  - (vi) the joint venture arrangement permits, but does not require, the REIT or its subsidiary or designee to participate fully in the management thereof;

provided, however, that the direct or indirect interest of the REIT in Choice Canada shall be specifically excluded from these requirements;

- (d) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank maturing prior to one year from the date of purchase of such securities by the REIT or in short term commercial paper, notes, bonds or other debt securities of a Canadian corporation, trust or other entity maturing prior to one year from the date of issue and having a rating of at least R 1 (middle) by Dominion Bond Rating Service or A 1 (Mid) by Standard & Poor’s Corporation, the REIT may not hold securities other than securities of (i) a joint venture entity, (ii) an entity wholly owned by the REIT formed and operated



solely for the purpose of holding a particular real property or real properties, holding and/or managing hotel operating assets or whose activities consist primarily of franchising hotels, or (iii) an entity formed and operated solely for the purpose of holding, directly or indirectly, securities of any of the foregoing entities; provided that, notwithstanding anything contained in the Declaration of Trust to the contrary, the REIT may acquire securities of other real estate investment trusts;

- (e) the REIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- (f) the REIT shall not invest in raw land for development (or improved land with a view to demolishing the improvements) except for existing properties with additional development potential or properties adjacent to existing properties owned by the REIT for the purpose of: (i) the renovation or expansion of existing facilities; or (ii) the development of new facilities that will be capital property of REIT;
- (g) the REIT may invest in mortgages and mortgage bonds (including, with the consent of a majority of the Trustees, a participating or convertible mortgage) where:
  - (i) the real property that is security therefore is income producing real property which otherwise meets the investment guidelines of the REIT;
  - (ii) the amount of the mortgage loan is not in excess of 75% of the market value of the property securing the mortgage and the mortgage has at least a 1.2 times debt service coverage level, which is obtained by dividing operating income for the particular property by the total principal and interest payments under all mortgages on such property;
  - (iii) the mortgage is a first mortgage registered on title to the real property which is security therefore; and
  - (iv) the aggregate value of the REIT's investments in these mortgages, after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity (as defined in the Declaration of Trust) calculated at the time of such investment;
- (h) notwithstanding paragraph (g), the REIT may invest in mortgages if one of its intentions is to use the acquisition of the mortgages as a potential method of acquiring control of a real property or a portfolio of real properties and the real property or properties would otherwise meet the investment guidelines of the REIT and provided the aggregate value of the REIT's investments in these mortgages (including mortgage loans referred to in paragraph (i)), after giving effect to the proposed investment, will not exceed 20% of Adjusted Unitholders' Equity calculated at the time of such investment;

- (i) notwithstanding paragraph (g), the REIT may also invest in mortgages where:
  - (i) the mortgage is a “vendor take back” mortgage granted to the REIT in connection with the sale by it of existing real property and as a means of financing the purchaser’s acquisition of such property from the REIT;
  - (ii) the mortgage is interest bearing;
  - (iii) the mortgage is registered on title to the real property which is security therefore;
  - (iv) the mortgage has a maturity not exceeding five years;
  - (v) the amount of the mortgage loan is not in excess of 75% of the selling price of the property securing the mortgage; and
  - (vi) the aggregate value of these mortgages (including mortgages and mortgage bonds in which the REIT is permitted to invest by virtue of paragraphs (g) and (h)), after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders’ Equity calculated at the time of such investment;
- (j) all of the REIT’s hotel and other real property investments shall be owned and operated by, or leased to, qualified operators (the Operator and its subsidiaries being qualified operators);
- (k) the REIT may invest an aggregate amount (which, in the case of an amount invested to acquire real property, shall be the purchase price less the amount of any indebtedness assumed or incurred by the REIT and secured by a mortgage on such property) of up to 15% of Adjusted Unitholders’ Equity in investments or transactions which do not comply with paragraphs (a), (c), (d), (f), (g), (h) or (i) above.

For the purposes of the foregoing guidelines, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidation basis. In addition, any references in the foregoing to an investment in real property will be deemed to include an investment in a joint venture arrangement that holds real property.

### **Operating Policies**

Pursuant to the Declaration of Trust, the Trustees are required to conduct the operations and affairs of the REIT in accordance with the following policies and shall not permit any subsidiary of the REIT to conduct its operations and affairs other than in accordance with the following policies:

- (a) the REIT and its subsidiaries shall not purchase, sell, market or trade in currency or interest rate futures contracts other than for hedging purposes where, for the

purposes hereof, the term “hedging” shall have the meaning ascribed thereto by National Instrument 81-102 — *Mutual Funds* adopted by the Canadian Securities Administrators, as amended from time to time;

- (b) (i) any written instrument creating an obligation which is, or includes the granting by the REIT of, a mortgage; and (ii) to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of the Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation, shall in each case contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion thereof shall be bound; provided that the REIT is not required, but shall use reasonable efforts, to comply with this requirement in respect of obligations assumed by the REIT upon the acquisition of any real property;
- (c) the REIT shall not lease or sublease to any person (except a wholly owned subsidiary), any real property, premises or space where that person and its affiliates would, after the contemplated lease or sublease, be leasing or subleasing real property, premises or space having a fair market value net of encumbrances in excess of 5% of Adjusted Unitholders’ Equity;
- (d) except for renovation or expansion of existing facilities and the development of new facilities as permitted under paragraph (f) of “– Investment Guidelines” above, the REIT shall not engage in construction or development of real property except as necessary to maintain its real property in good repair or to enhance the income producing ability of properties in which the REIT has an interest;
- (e) title to each real property shall be held by and registered in the REIT’s name, the Trustees or in the name of a corporation or other entity directly or indirectly wholly-owned by the REIT or jointly owned by the REIT with joint venturers;
- (f) the REIT shall not incur or assume any indebtedness under a mortgage or other security where (i) in the case of an individual property, the amount borrowed exceeds 75% of the market value of such individual property, or (ii) in the case of more than one property or a pool or portfolio of properties, the amount borrowed exceeds 75% of the market value of such properties on an aggregate basis, in either case, calculated at the time of assuming such indebtedness;
- (g) the REIT shall not incur or assume any indebtedness (other than temporary indebtedness, if any, due to vendors of the initial Portfolio in connection with the initial acquisition transaction, non-interest bearing indebtedness and trade accounts payable) if, after giving effect to the incurrence or assumption of such indebtedness, the Financial Leverage Ratio would exceed 60% (75% including any convertible debentures of the REIT);

- (h) the REIT shall not directly or indirectly guarantee any indebtedness or liabilities of any kind of a third party except indebtedness assumed or incurred under a mortgage by a corporation or other entity wholly-owned by the REIT or jointly by the REIT with joint venturers and operated solely for the purpose of holding a particular property or properties where such mortgage, if granted by the REIT directly, would not cause the REIT to otherwise contravene the restrictions set out under “Investment Guidelines and Operating Policies”, and, where such mortgage is granted by a joint venture entity, subject to a joint venturer being required to give up its interest in a property owned by the joint venture entity as a result of another joint venturer’s failure to honour its proportionate share of the obligations relating to such property, the REIT’s liability is limited strictly to the proportion of the mortgage loan equal to the REIT’s proportionate ownership interest in the joint venture entity;
- (i) the REIT shall obtain an independent valuation of each property that it intends to acquire from or sell to a Related Party;
- (j) the REIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of the REIT and the accidental loss of value of the assets of the REIT from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties;
- (k) the REIT shall obtain or cause a subsidiary to obtain such physical and environmental reports as the Trustees consider advisable for each future hotel property to be acquired by it; and
- (l) the REIT shall not issue additional REIT Units unless the Trustees consider such issuances not to be dilutive to ensuing annual distributions of Distributable Income to existing Unitholders.

For the purpose of the foregoing policies, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to an investment in real property include an investment in a joint venture that holds real property.

## **DISTRIBUTION POLICY**

The following summarizes InnVest’s distribution policy as contained in the Declaration of Trust. The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of holders of REIT Units.

### **General**

The REIT may distribute such percentage of its estimated Distributable Income for the month then ended as the Trustees determine in their discretion. To the extent possible, distributions will be paid in equal monthly cash distributions to Unitholders, on or about the 15th

day of each month (with the January 15th distribution being payable as of the preceding December 31st). In addition, the Trustees may at any time declare an extraordinary distribution of cash, units or other property of the REIT.

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

1. the exposure of the Canadian hotel industry to the overall cyclical effects of the Canadian business environment;
2. the seasonal nature of InnVest's business;
3. InnVest's geographical diversity, as its hotels are located in numerous regions throughout Canada, with each region having its own unique characteristics;
4. changing customer attitudes to brands of hotels in the Portfolio;
5. changes in customer segmentation due to changing social, economic and political conditions; and
6. other macroeconomic, social and geopolitical factors (including changes in Canadian federal and provincial tax regimes) which are beyond the control of InnVest.

All of these factors can have a material effect on InnVest's revenue and cost structure. Examples include the outbreak of SARS in 2003 and the economic recession in 2009 followed by a slow industry recovery, each of which had a material negative impact on the Canadian hotel industry, as well as the implementation of the SIFT Legislation and proposed changes to the income tax rules affecting issuers of stapled securities. As a result of InnVest's exposure to numerous factors which are beyond its control, it is difficult for management to make predictions concerning distribution levels for future quarters and, as a result, management asserts that it would not be prudent to provide investors or potential investors with forward-looking information regarding distribution levels.

Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. Each year, InnVest sets between 3% and 5% of total hotel revenue at each hotel and certain amounts required for hotel acquisitions for replacing furniture, fixtures and equipment and capital improvements.

Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Income for the prior periods is greater than or less than the Trustees' estimates for the prior periods. The distributions for any month will be payable to the Unitholders of record at the close of business on the last business day of the month. Distributions of Distributable Income are made in cash. InnVest had historically permitted Unitholders to reinvest distributions in REIT Units through the DRIP, which is described under "Description of REIT Units and Declaration

of Trust – Distribution Reinvestment Plan”. The DRIP was suspended in August 2011 as a result of the proposed changes to the Canadian federal income tax rules affecting issuers of stapled securities. InnVest reinstated the DRIP following the completion of the 2012 Reorganization.

In June 2010, the distribution policy of the REIT was amended (with Unitholder approval at the annual and special meeting of the REIT held on June 16, 2010) to remove the obligations of the REIT to distribute (a) a minimum percentage of Distributable Income each month and (b) any excess income (including taxable capital gains, if any) for the year over distributions otherwise made for that year. These amendments were made to ensure the REIT Units would be treated as equity, rather than a liability of the REIT, under IFRS and not to effect a change in the REIT’s distribution practices.

The Portfolio is subject to variations in revenues, with revenues during the second and third calendar quarters being generally higher than those in the first and fourth quarters. As a result, if necessary, InnVest may be required to draw down on its operating loan facility during the first and fourth quarters in order to augment otherwise lower cash distributions to a point where cash distributions are as even as possible throughout the calendar year.

In November 2011, InnVest announced a reduction of monthly distributions paid to Unitholders to \$0.0333 per Stapled Unit, which equated to an annual distribution of \$0.40 per Stapled Unit, as compared to the previous monthly distribution level of \$0.0417 per Stapled Unit, which equated to an annual distribution of \$0.50 per Stapled Unit. The Trustees unanimously approved the reduction of distributions after careful consideration of the environment faced by InnVest and their desire to conserve liquidity to fund profit-improving capital investments throughout the Portfolio. The monthly distributions declared since November 2011 were comprised entirely of a distribution of \$0.0333 made by the REIT on the REIT Units and no distribution was made by IOT on the IOT Non-Voting Units. Following completion of the 2012 Reorganization, and for the remainder of 2012, InnVest continued to pay a monthly distribution of \$0.0333 on the REIT Units.

Prior to 2011, the REIT had adjusted its monthly distributions on two occasions. In November 2008, the monthly distribution was reduced from \$0.09375 per REIT Unit (\$1.125 annually) to \$0.0625 per REIT Unit (\$0.75 annually). In September 2009, the monthly distribution was reduced from \$0.0625 per REIT Unit (\$0.75 annually) to \$0.0417 per REIT Unit (\$0.50 annually).

The table below summarizes distributions paid to Unitholders over the past three years.

For the year ended December 31,	Total Distributions Declared (\$ in millions)	Distributions Declared per Unit
2010	\$44.4	\$0.5004
2011	\$44.9	\$0.4836
2012	\$37.4	\$0.3996

## **Computation of Distributable Income for Distribution Purposes**

Distributable Income is defined as net income as set out in the REIT's consolidated financial statements determined in accordance with IFRS, subject to certain adjustments set out in the Declaration of Trust including the addition of depreciation and amortization, amortization of fair value debt adjustment and deferred income tax expense, excluding any gains or losses on the disposition of real property, and deferred income tax recovery and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements, 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.

## **Tax Deferral on Distributions**

The adjusted cost base of REIT Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's REIT Units would otherwise be a negative amount. The non-taxable portion of distributions for any year may be adjusted following any reassessment by the Canada Revenue Agency for that year.

The table below summarizes the non-taxable portion of distributions made to Unitholders over the past three years.

For the year ended December 31,	Non-taxable portion of Distributions
2010	67.0%
2011	60.1%
2012	40.0%

## SELECTED FINANCIAL INFORMATION

The following table sets out selected financial information as at, and for the years ended, December 31, 2012 and 2011 and should be read in conjunction with the consolidated financial statements of the REIT.

	<b>As at December 31, 2012</b>	<b>As at December 31, 2011</b>
		(as restated)
<b>Balance Sheet Data</b>		
<b>(in thousands)</b>		
Total Assets .....	\$1,418,019	\$1,564,111
Total Long-term Debt (includes current portion of long-term debt and long-term debt related to assets held for sale) .....	\$788,183	\$804,569
	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>
		(as restated)
<b>Revenue and Earnings Data</b>		
<b>(in thousands, except per unit amounts)</b>		
Revenues .....	\$625,231	\$617,108
Gross operating profit.....	\$141,602	\$140,007
Net (loss) income.....	(\$102,268)	\$44,535
Net (loss) income per unit - diluted .....	(\$1.093)	\$0.479
<b>Other Data</b>		
Same-hotel Average Daily Rate (“ADR”).....	\$118.98	\$116.86
Same-hotel Occupancy .....	62.1%	61.7%
Same-hotel Revenue per Available Room (“RevPAR”) ...	\$73.84	\$72.05
Distributions per unit.....	\$0.3996	\$0.4836

## MATERIAL DEBT OBLIGATIONS

At December 31, 2012, InnVest had mortgages payable in the aggregate amount of \$778.0 million (excludes debt issuance costs) with a weighted average term of 3.0 years and a weighted average interest rate of 5.6% (ranging from 3.0% to 6.8%). Approximately 10.4% of the InnVest’s mortgage debt is at a floating rate. InnVest expects to address its debt maturities in the normal course of business. In 2012, InnVest refinanced \$330.0 million in mortgage renewals.

At December 31, 2012, InnVest also had \$306.3 million of unsecured subordinated fixed-rate convertible debentures, issued in five series, which mature between 2013 and 2018. In the first quarter of 2013, InnVest issued \$115.0 million of 5.75% Series G Debentures due March 31, 2019 pursuant to a public offering and called its \$75.0 million 6.00% Series B Debentures due May 31, 2013 for early redemption. See “Description of Convertible Debentures”.



InnVest’s debt obligations do not provide for any contractual limitations on cash distributions to its Unitholders.

### MARKET FOR SECURITIES

Prior to the completion of the 2012 Reorganization, the Stapled Units were listed and posted for trading on the TSX under the symbol “INN.UN”. On July 3, 2012, the REIT Units were posted for trading under the symbol “INN.UN” in substitution for the Stapled Units. The following table sets out the monthly reported high and low trading prices and trading volumes of the Stapled Units and REIT Units for the year ended December 31, 2012:

<b>TSX Trading Summary of Stapled Units and REIT Units</b>			
<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(#)</b>
<b>Stapled Units</b>			
January.....	5.35	4.15	6,291,769
February.....	5.56	4.99	4,479,669
March.....	5.49	5.02	3,383,385
April.....	5.33	4.62	3,024,386
May.....	5.10	4.30	3,446,897
June.....	4.92	4.36	3,241,364
<b>REIT Units</b>			
July.....	5.29	4.67	2,280,986
August.....	5.20	4.75	2,551,134
September.....	5.32	4.84	2,700,365
October.....	5.22	4.61	2,624,321
November.....	4.98	4.01	4,040,068
December.....	4.43	3.95	3,603,751

The 6.00% Series B Debentures, 5.85% Series C Debentures, 6.75% Series D Debentures and 6.00% Series E Debentures are listed and posted for trading on the TSX under the symbols “INN.DB.B”, “INN.DB.C”, “INN.DB.D” and “INN.DB.E”, respectively. Prior to the completion of the 2012 Reorganization, the 5.75% Series F Stapled Debentures were listed and posted for trading on the TSX under the symbol “INN.DB.F”. On July 3, 2012, the 5.75% Series F Debentures were listed and posted for trading under the symbol “INN.DB.F” in substitution for the 5.75% Series F Stapled Debentures. In February 2013, the 5.75% Series G Debentures were issued and listed on the TSX under the symbol “INN.DB.G”.

The following tables set forth the monthly reported high and low daily trading prices and the aggregate volume of the 6.00% Series B Debentures, 5.85% Series C Debentures, 6.75% Series D Debentures, 6.00% Series E Debentures, 5.75% Series F Stapled Debentures and 5.75% Series F Debentures on the TSX for the year ended December 31, 2012.

Month	Trading of 6.00% Series B Convertible Debentures			Trading of 5.85% Series C Convertible Debentures		
	High	Low	Volume	High	Low	Volume
	(\$)	(\$)	(#)	(\$)	(\$)	(#)
January.....	102.50	100.00	4,670	101.50	99.75	12,630
February.....	102.52	101.00	3,140	101.25	100.00	3,650
March.....	102.50	100.75	1,580	102.00	100.00	9,560
April.....	101.75	100.03	4,190	100.90	99.00	8,520
May.....	101.35	100.12	7,130	101.50	100.00	5,070
June.....	101.00	100.10	10,750	101.50	100.00	7,760
July.....	101.40	100.50	12,700	101.65	100.50	2,880
August.....	101.54	100.50	4,990	102.80	100.51	2,950
September.....	101.26	100.51	3,570	101.75	100.20	4,720
October.....	101.00	100.51	3,660	101.75	100.30	5,020
November.....	101.00	99.70	4,400	101.50	99.50	4,570
December.....	100.48	99.50	10,240	100.98	99.50	5,130

Month	Trading of 6.75% Series D Convertible Debentures			Trading of 6.00% Series E Convertible Debentures		
	High	Low	Volume	High	Low	Volume
	(\$)	(\$)	(#)	(\$)	(\$)	(#)
January.....	107.10	102.70	720	98.90	86.00	17,610
February.....	108.00	105.00	1,470	100.00	95.00	15,120
March.....	107.50	104.60	5,550	99.50	95.00	12,210
April.....	105.00	102.50	2,220	99.50	94.00	7,380
May.....	105.09	102.00	1,583	100.00	96.50	6,180
June.....	105.00	102.27	1,650	98.00	97.25	3,820
July.....	114.00	104.50	2,710	98.00	96.50	7,120
August.....	107.00	105.75	1,470	100.00	98.25	11,350
September.....	106.00	103.40	1,970	101.00	99.25	20,810
October.....	106.00	100.00	1,260	100.50	98.50	15,740
November.....	103.00	100.00	4,160	99.80	96.00	26,800
December.....	100.70	100.00	2,630	98.20	96.00	6,610

Month	Trading of 5.75% Series F Convertible Debentures		
	High	Low	Volume
	(\$)	(\$)	(#)
<b>Series F Stapled Debentures</b>			
January.....	97.86	88.00	7,460
February.....	97.50	96.00	7,730
March.....	97.15	95.50	7,530
April.....	96.70	93.00	7,700
May.....	96.00	94.50	5,830
June.....	96.00	92.00	5,770
<b>Series F Debentures</b>			
July.....	97.50	94.50	4,210
August.....	97.50	96.00	11,530
September.....	98.50	96.50	8,150
October.....	99.89	97.00	6,400
November.....	98.58	90.02	2,230
December.....	99.00	95.00	6,010

## REGISTRAR AND TRANSFER AGENT

InnVest’s registrar and transfer agent for the REIT Units and the Debentures is Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario M5J 2Y1.

## MATERIAL CONTRACTS

The following table sets out the particulars of every contract, other than a contract entered into in the ordinary course of business, that is material to InnVest and that was entered into within the most recently completed financial year, or before the most recently completed financial year but is still in effect.

<b>Material Contract</b>	<b>Description of Particulars</b>
Second Amended and Restated Master Hotel Management Agreement dated July 1, 2012 between the Operator, InnVest Management Inc., Westmont Hospitality Canada Limited and the REIT	See “Management Structure – Master Hotel Management Agreement”
Fourth Amended and Restated Declaration of Trust dated as of July 1, 2012 governing the business and affairs of the REIT	See “Description of REIT Units and Declaration of Trust”
Trust indenture dated February 27, 2013 between the REIT, as issuer, and Computershare, as debenture trustee (the “2013 Indenture”)	The 2013 Indenture provides for the issuance of an unlimited number of debentures and specifically authorizes the issuance of up to an aggregate principal amount of \$115,000,000 of 5.75% Series G Debentures. A description of the terms of the 2013 Indenture is set out at “Description of the Debentures” in the REIT’s short form prospectus dated February 20, 2013, which is incorporated herein by reference.
Trust indenture dated March 15, 2011 between the REIT, as issuer, IOT, as guarantor, and Computershare, as debenture trustee, as supplemented by the first supplemental indenture dated July 3, 2012 between the REIT and Computershare (collectively, the “2011 Indenture”)	The 2011 REIT Indenture provides for the issuance of an unlimited number of debentures of the REIT and specifically authorizes the issuance of up to an aggregate principal amount of \$50,000,000 of 5.75% Series F Debentures. A description of the terms of the REIT Indenture is set out at “Description of the Debentures” in InnVest’s short form prospectus dated March 8, 2011, “Reorganization – Description of the Reorganization – 2011 REIT Indenture and 2011 IOT Indenture” in the REIT’s management information circular dated December 31, 2011, each of which is incorporated herein by reference.

<b>Material Contract</b>	<b>Description of Particulars</b>
<p>Trust Indenture dated July 26, 2002 between the REIT and Computershare, as supplemented by the first supplemental indenture dated April 2, 2004 between the REIT and Computershare, the second supplemental indenture dated May 16, 2006 between the REIT and Computershare, the third supplemental indenture dated August 3, 2007 between the REIT and Computershare, the fourth supplemental indenture dated December 30, 2009 between the REIT and Computershare and the fifth supplemental indenture dated August 13, 2010 between the REIT and Computershare, the sixth supplemental indenture dated December 31, 2010 between the REIT, IOT and Computershare, and the seventh supplemental indenture dated July 3, 2012 between the REIT, IOT and Computershare (collectively, the “2002 Indenture”)</p>	<p>The 2002 Indenture provides for the issuance of an unlimited number of debentures of the REIT, and specifically authorizes the issuance of an aggregate principal amount of \$75,000,000 of 9.75% convertible debentures (which have since been redeemed), an aggregate principal amount of \$57,500,000 of the 6.25% Series A Debentures (which have since been redeemed), an aggregate principal amount of \$75,000,000 of the 6.00% Series B Debentures, an aggregate principal amount of \$70,000,000 of the 5.85% Series C Debentures, an aggregate principal amount of \$50,000,000 of the 6.75% Series D Debentures and an aggregate principal amount of \$75,000,000 of the 6.00% Series E Debentures. A description of the terms of the 2002 Indenture is set out at “Vendor Convertible Debentures” in the REIT’s prospectus dated July 18, 2002, “Description of the Series A Debentures” in the REIT’s short form prospectus dated March 23, 2004, “Description of the Debentures” in the REIT’s short form prospectus dated May 9, 2006, “Description of the Debentures” in the REIT’s short form prospectus dated July 26, 2007, “Description of the Debentures” in the REIT’s short form prospectus dated December 18, 2009, “Description of the Debentures” in the REIT’s short form prospectus dated August 6, 2010, “Plan of Arrangement – Reorganization – Debenture Indenture” in the REIT’s management information circular dated May 13, 2010 and “Reorganization – Description of the Reorganization – 2002 Indenture” in the REIT’s management information circular dated December 31, 2011, each of which is incorporated herein by reference.</p>
<p>Non-Competition Agreement dated July 26, 2002 between Westmont and the REIT</p>	<p>See “Description of the Business – Competition”</p>
<p>Fourth Amended and Restated Unitholder Rights Plan dated July 1, 2012, between Computershare and the REIT</p>	<p>See “Description of Units and the Declaration of Trust – Unitholder Rights Plan”</p>

## MANAGEMENT STRUCTURE

### Trustees and Officers

The name, province or state and country of residence, office held with InnVest and principal occupation of each trustee and officer of InnVest are as follows:

<b>Name and Residence</b>	<b>Office with InnVest</b>	<b>Principal Occupation</b>
Majid Mangalji <sup>(1)(3)</sup> Wimbledon, England	Trustee, Chair of the Board of Trustees	Founder and President, Westmont Group
Frank Anderson, FCA <sup>(2)(3)(4)(5)</sup> Ontario, Canada	Trustee	Chairman and Chief Executive Officer, Preferred One Inc
Morton Gross, Q.C. <sup>(2)(3)(5)</sup> Ontario, Canada	Trustee	Senior partner, Borden Ladner Gervais LLP (law firm)
Michael P. Kitt <sup>(2)(3)(4)(5)</sup> Ontario, Canada	Trustee	Executive Vice President, Canada Oxford Properties Group
Minhas N. Mohamed <sup>(2)(3)(4)(5)</sup> Ontario, Canada	Trustee	President, Chief Executive Officer and Co-Founder, MMV Financial (venture capital)
Fereed Mangalji <sup>(1)(3)</sup> Singapore, Singapore	Trustee	Principal and Executive Director, Westmont Group
Anthony Messina Quebec, Canada	President and Chief Executive Officer of InnVest	President and Chief Executive Officer, InnVest and Chief Operating Officer, Westmont Group and the Manager
George M. Kosziwka Ontario, Canada	Chief Financial Officer and Corporate Secretary	Chief Financial Officer and Corporate Secretary, InnVest and Chief Financial Officer, Westmont Group and the Manager

- (1) Westmont Group Nominee
- (2) Independent Trustee of the REIT
- (3) Member of the Investment Committee of the REIT
- (4) Member of the Audit Committee of the REIT
- (5) Member of the Compensation and Corporate Governance Committee of the REIT

With the exception of Fereed Mangalji, who has been a trustee since April 18, 2006, each of the Trustees, has been a trustee of the REIT since June 5, 2002, the date of formation of the REIT. Each of the Independent Trustees was last appointed on May 23, 2012 and will continue to serve until the next annual meeting of the REIT, or until his or her successor is elected or appointed.

Pursuant to the Declaration of Trust, Westmont has the right to appoint one Trustee, since it owns, in the aggregate, at least 5% of the outstanding REIT Units. The Manager also has the right to appoint one Trustee, provided that the Master Hotel Management Agreement remains in effect and that the appointment would not result in a majority of the Trustees not being Independent Trustees. The Trustees appointed by Westmont and the Manager serve for an indefinite term unless removed by Westmont or the Manager, as the case may be, or Westmont or the Manager, as the case may be, ceases to have appointment rights. The remaining Trustees

are to be elected by a plurality of the votes cast at the next annual meeting. The Westmont Group is entitled to vote its REIT Units for the election of the remaining Trustees.

As at March 22, 2013, as a group, the Trustees and officers of the REIT beneficially own, directly or indirectly, or exercise control or direction over, a total of 8,598,208 REIT Units, which represents 9.2% of the outstanding REIT Units.

The nature and extent of the experience of the Trustees and officers of the REIT in the real estate industry and their principal occupations are as follows:

**Majid Mangalji** is Founder and President of the Westmont Group, which started its hospitality business approximately 30 years ago. Mr. Mangalji has been involved in all aspects of the development of the Westmont Group. During this period, it has grown from a single hotel to become one of the largest private hotel owner/operators in the world with a significant presence in North America, Europe, and Asia. As the head of this global hotel group, Mr. Mangalji has developed extensive knowledge of international hospitality markets, investing and operating in these markets and has created strong relationships with major international hotel brands, leading financial institutions, and investment funds. Mr. Mangalji sits on the boards of the principal hospitality companies in which the Westmont Group invests. He is the Chairman of the REIT and has a seat on the board of IREFAC (Industry Real Estate Financing Advisory Council). Mr. Mangalji holds a business degree with a double major in accounting and marketing from the University of Bradford, England.

**Frank Anderson, FCA** is currently the Chairman and CEO of Preferred One Inc., a marketing company, and was a senior partner in a major accounting firm until his retirement in 1999. He specialized in the retail, consumer products, real estate and advertising industries. Mr. Anderson was Executive Vice-President of Hy & Zel's, a discount drug store chain, from July 2002 until January 2003 and, until February 2007, the President of LIN Solutions Inc., a consulting company. From March 2007 until June 2009 Mr. Anderson was a Senior Officer of DundeeWealth Inc., a financial services company, latterly as Vice-Chairman, Financial Administration and Operations. He was a member of the Board of DundeeWealth Inc. from June 2003 until August 2009 and the Chair of its Audit Committee from June 2003 until February 2007. Mr. Anderson is a member of the Boards of Directors of the Canadian Centre for Diversity and the University of Toronto Press and is the Founding Chairman of Cornerstone 52 Foundation, a charitable organization dedicated to funding children's charities. He is a Past Chair of the Heart and Stroke Foundation of Ontario. Mr. Anderson was previously a member of the boards and Chair of the Audit Committees of O. & Y. REIT and Counsel Corporation and previously a member of the board of IPICO Inc., of which he was Executive Chairman from March 2006 until December 2006. Mr. Anderson obtained an undergraduate degree in Social Economics from the University of Glasgow, his C.A. designation from the Institute of Chartered Accountants of Scotland and was elected a Fellow of the Institute of Chartered Accountants of Ontario in 1997.

**Morton Gross, Q.C.** is a senior partner in the Toronto office of the law firm of Borden Ladner Gervais LLP, where he practises in the areas of commercial and real estate law, including in the area of hotels and hospitality. Mr. Gross is the Chair of his firm's Public Private Partnership Group and formerly Chair of the National Real Estate Practice Group. Mr. Gross was

Director and Chair of Corporate Governance and Human Resources Committee of Cadillac Fairview Corporation from 1996 to 2002. Mr. Gross holds a Bachelor of Laws degree from the University of Toronto and was called to the Ontario Bar in 1967.

**Michael P. Kitt** is Executive Vice President, Canada at Oxford Properties Group, a wholly owned subsidiary of the Ontario Municipal Employees Retirement System. Mr. Kitt is responsible for all activities within the company's 40 million square foot Canadian portfolio, including real estate management, development and investments. Prior to joining Oxford, Mr. Kitt was the Executive Vice-President, Development for a major commercial real estate company and was responsible for their office and retail development programs. Mr. Kitt holds an undergraduate degree from the University of Manitoba and is a Chartered Financial Analyst.

**Minhas N. Mohamed** is President, Chief Executive Officer and Co-Founder of MMV Financial Inc. and was the Managing Partner of MM Venture Partners (a predecessor firm). As President & CEO, Mr. Mohamed has overall management and strategic responsibility for MMV Financial. He has over 20 years of experience in the financing of technology and emerging growth companies, both in North America and internationally. Prior to founding MM Venture Partners in August 1998, Mr. Mohamed spent 11 years as a senior partner and shareholder of Quorum Funding Corporation, one of Canada's leading technology-focused venture capital funds. He has been a director of many public companies, including Promis Systems and Quorum Funding Corporation. Mr. Mohamed is a founding member and former Chairman of the Toronto Venture Group. He is also a member of the Association of Venture Capital Corporations. Mr. Mohamed is a graduate of the University of Western Ontario and is a Chartered Accountant and a Chartered Financial Analyst.

**Fereed Mangalji** is a Principal and Executive Director of Westmont Group, and has been with the company for almost 20 years. Mr. Mangalji oversees all facets of the company with a primary focus on the company's US and Canadian portfolios including overseeing all of Westmont's substantial investment projects and asset management group. During his tenure, Mr. Mangalji has been one of the key players in the dramatic growth of Westmont from a hotel operator/owner into one of the world's largest global hotel real estate investment companies. Mr. Mangalji has extensive familiarity and experience in both the real estate and hospitality industries and has a strong background in complex deal structuring, public to private acquisitions, mezzanine debt acquisitions, operational repositioning and asset work-outs. Mr. Mangalji holds a degree from Harvard University. Prior to joining the Westmont team, Mr. Mangalji worked with Bankers Trust in New York where he worked in the real estate group. Mr. Mangalji is also a member of the Young Presidents Organization.

**Anthony Messina** was named Chief Executive Officer of InnVest in December 2012, having previously served as interim Chief Financial Officer since July 2012. Mr. Messina has more than 20 years of experience in the real estate industry including financial management, hotel development/ownership and privatization of public real estate companies. Since 2009, Mr. Messina has served as the Managing Director of Investments for Westmont Hospitality Group, responsible for various real estate investments, capital raising and reporting to institutional investors. Prior to joining Westmont, Mr. Messina served for over 8 years as Vice President for a global real estate division of one of Canada's largest pension funds, Caisse de dépôt et placement du Québec, where he was responsible for world-wide real estate acquisitions and included asset

management until 2005. Previously, Mr. Messina held a series of senior positions in real estate companies and was also an auditor and real estate consultant at Deloitte. Mr. Messina holds a Bachelor Degree in Finance from Concordia University and a Graduate Degree in Public Accountancy from McGill University. He is also a member of the Canadian Institute of Chartered Accountants.

**George M. Kosziwka** was named Chief Financial Officer of InnVest in December 2012, having previously served as Vice President Finance since InnVest's inception in 2002. Mr. Kosziwka has substantial hospitality real estate experience having worked over 20 years in the industry. Prior to joining InnVest he held senior finance executive positions for predecessors of the REIT, including UniHost Corporation and Journey's End Corporation. Mr. Kosziwka is also currently a director of Choice Canada. Mr. Kosziwka holds an Honours Bachelor of Mathematics from the University of Waterloo and is a Chartered Accountant.

### **Corporate Cease Trade Orders or Bankruptcies**

Mr. Frank Anderson was a director of IPICO Inc. when it filed a proposal under the Bankruptcy and Insolvency Act (Canada) on February 18, 2011. The proposal was approved by an order of the Ontario Superior Court of Justice on March 17, 2011. Mr. Anderson resigned as a director of IPICO Inc. on March 24, 2011.

### **Conflict of Interest Restrictions and Provisions**

The Declaration of Trust 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 CBCA, that require each Trustee or officer 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 director or officer of or otherwise has a material interest in any person 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 the Trustee or officer 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 (i) one relating primarily to his or her remuneration as a trustee, officer, employee or agent of the REIT or (ii) 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 66 2/3% of Independent Trustees who have no interest in such transaction.

### **Independent Trustee Matters**

In addition to requiring the approval of a majority of the Trustees, approval of not less than 66 2/3% of the Independent Trustees who have no interest in the matter is required with respect to any decision by the REIT:

- (a) to make a material change to the Master Hotel Management Agreement or administrative services agreements (described below), change the fees payable to the Manager, renew the Master Hotel 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 Master Hotel Management Agreement;
- (b) to enter into any agreement or transaction in which any Related Party 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;
- (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 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 has an interest or to sell any interest in any real or other property to a Related Party;
- (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 REIT Units under any option plan approved by the Trustees or to award any right to acquire or other right or interest in REIT Units or securities convertible into or exchangeable for REIT 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, or

with the Manager or any successor as hotel manager under the Master Hotel Management Agreement.

### **Interest Of Management And Others In Material Transactions**

Each of Majid Mangalji and Fereed Mangalji is an officer of the Westmont Group, as described above at “Management Structure – Trustees and Officers”. In addition George Kosziwka’s and Anthony Messina’s employments are split between the Westmont Group and InnVest.

Affiliates of InnVest have entered into the Master Hotel Management Agreement with the Manager, a member of the Westmont Group, providing for the management of the Hotel Businesses. See “– Master Hotel Management Agreement”. The REIT, the Operator and the Manager are also parties to certain arrangements for the provision of certain administrative services and asset supervisory services by the Manager. See “– Other Agreements”. As a result of their involvement with the Westmont Group, each of Fereed Mangalji, Majid Mangalji, George Kosziwka and Anthony Messina may have, and as a result of its being an affiliate of the Manager, Westmont has, an indirect interest in each of the foregoing agreements.

### **Master Hotel Management Agreement**

The Operator and certain of its subsidiaries are party to the Master Hotel Management Agreement with the Manager, under which the Manager is responsible for the management of the Hotel Businesses in respect of most of the hotels in the Portfolio. 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 obligations of the Operator and its subsidiaries are guaranteed by the REIT.

The Master Hotel Management Agreement has been effective since July 26, 2002 and had an initial term of 10 years, subject to two successive five-year renewal terms with the consent of the Manager and approval by the Operator. In 2008, InnVest exercised the first five-year extension term on the Master Hotel Management Agreement with Westmont, extending the expiration date to July 25, 2017. If the REIT acquires any additional hotels, which are not otherwise managed, during the term of the Master Hotel Management Agreement, the Manager will manage such additional hotels in accordance with the Master Hotel Management Agreement for the balance of the term of the agreement. The Master Hotel Management Agreement was amended and restated on December 31, 2010 and July 1, 2012 to accommodate the implementation and subsequent unwinding of the Stapled Unit structure and to reflect changes to the Portfolio since the REIT’s initial public offering.

The Master Hotel Management Agreement provides for the payment of an annual management fee to the Manager during the term of the agreement, including renewal periods, in an amount equal to 3.375% of gross revenues from the Portfolio, calculated and payable

monthly. In addition, the Manager is entitled to an annual incentive fee. The incentive fee is 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 defined in the Master Hotel Management Agreement) but is less than or equal to the Second Incentive Fee Hurdle (as defined in the Master Hotel Management Agreement), 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 defined in the Master Hotel Management Agreement), 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 REIT Unit multiplied by the weighted average number of REIT Units outstanding during the relevant period. The Second Incentive Fee Hurdle is an amount equal to the product of \$1.275 per REIT Unit multiplied by the weighted average number of REIT Units outstanding during the relevant period. The Third Incentive Fee Hurdle is an amount equal to the product of \$1.425 per REIT Unit multiplied by the weighted average number of REIT 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 or 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. The consolidation of the REIT Units pursuant to the 2012 Reorganization was specifically carved out of the anti-dilution provisions.

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 all reasonable out-of-pocket costs and expenses (other than general and administrative expenses or overhead costs except as otherwise provided in the administrative services agreements discussed below under “– Other Agreements”) incurred by the Manager in the performance of its duties under the 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.

Internalization of the management of the Hotel Businesses on the basis of payment to the Manager of a fee in excess of the sum of the base management fee and incentive fee payable during the 12 months preceding such internalization is subject to the approval of not less than 66 2/3% of the votes cast by holders of REIT Units (excluding REIT Units beneficially owned by or on behalf of the Westmont Group) at a meeting called for such purpose.

The Operator has the right to terminate the Master Hotel Management Agreement if, in two consecutive years: (i) certain performance tests relating to the achievement of 80% of the annual budgeted net operating cash flow for the Portfolio are not met, and (ii) a market test relating to the achievement of 90% of the average achieved RevPAR relative to a competitive set of limited service hotels is not satisfied. The termination right will not be triggered if the failure to achieve the performance test is a result of force majeure or specified acts or defaults by the Operator. Unless it is otherwise in default under the Master Hotel Management Agreement, the Manager has the right once during the first five years of the initial term and once during the

second five years of the initial term to cure any performance test failure by making a payment to the Operator of the deficiency in net operating cash flow below the performance test criteria. Such payment may, at the Manager's option, be made by set-off against management fees. If the Operator terminates the Master Hotel Management Agreement pursuant to its termination right, no compensation is payable to the Manager other than accrued fees and reimbursable costs.

The Manager may terminate the Master Hotel Management Agreement without compensation on six months' prior written notice provided that, upon request of the Operator, the Manager shall delay the effective date of such termination for a further six months. If control of InnVest passes to a person of ill-repute or a competitor of the Manager, the Manager is entitled to terminate the Master Hotel Management Agreement and to receive compensation equal to the base management fee and incentive fee paid in the preceding 12 months. In addition, the Operator and the Manager have termination rights after customary events of default, including bankruptcy or insolvency proceedings or similar events, subject to customary notice and cure rights.

The Master Hotel Management Agreement provides that the Operator will make a termination payment to the Manager if InnVest sells a hotel or hotels to an unrelated third party during the term of the agreement and the Manager is not continued as manager of the hotel or hotels that are sold. If the hotel or hotels being sold in any 12 month period represent 10% or less of the Gross Book Value of the Portfolio, such termination payment will be equal to the sum of the base management fee and incentive fee reasonably allocable to the hotel or hotels over the 12 months immediately preceding the sale. If the hotel or hotels being sold in any 12 month period represent more than 10% of the Gross Book Value of the Portfolio, such termination payment will be the amount that is equal to the base management fee and incentive fee over the 36 months immediately preceding the sale reasonably allocable to the hotel or hotels being sold that represent in excess of 10% of the Gross Book Value of the Portfolio.

Any sale or assignment of the Master Hotel Management Agreement by the Manager or change of control of the Manager is subject to the approval of the Operator, which approval shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all consents, approvals or waivers required under applicable franchise agreements, mortgages, agreements with Choice Canada and Choice International and land leases which contain restrictions relating to a sale or assignment of the Master Hotel Management Agreement or a change of control of the Manager have been obtained without material adverse consequence or material cost to InnVest.

Certain significant decisions or consents by the Operator, such as renewal terms and extensions, consents to assignment of the Master Hotel Management Agreement or change of control of the Manager are subject to ratification by the Independent Trustees on behalf of the REIT and the approval of annual budgets and other reimbursements to the Manager are subject to the approval of the Trustees on behalf of the REIT in each case as the controlling shareholder of the general partner of the Operator.

The table below summarizes the consideration paid to the Manager for services rendered over the past two years.

(\$ in millions)	2012	2011
Management fees	\$12.0	\$11.5
Other services	6.5	6.3
Total	\$18.5	\$17.8

### **Other Management Agreements**

Hilton Worldwide (“Hilton”) manages two Hilton hotel properties for InnVest. The agreements provide for the payment of an annual management fee to Hilton in an amount equal to 3% of gross revenues during the term of the agreements. The agreements mature on December 31, 2026. For the year ended December 31, 2012, total management fees paid to Hilton were \$1.2 million (2011 - \$1.2 million).

Delta Hotels Limited (“Delta”) manages nine Delta hotel properties for InnVest. The hotel management agreements provide for the payment of an annual management fee to Delta in an amount of 3% of total revenues from the hotel. Delta can qualify for an incentive management fee of 0.5% of total revenues from the hotel if the hotel’s annual gross operating profit is greater than the budgeted gross operating profit, for the two hotels purchased by the REIT in 2006. The incentive management fees for the other seven hotels are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. The agreements mature from December 31, 2016 to December 31, 2047. For the year ended December 31, 2012, total management fees paid to Delta for these hotels were \$4.0 million (2011 - \$4.4 million).

Fairmont Hotels Inc. (“Fairmont”) manages three hotel properties for InnVest. The hotel management agreements provide for the payment of a base management fee and an incentive management fee to Fairmont. The base management fee is equal to 3% of total hotel revenues. The incentive management fees are calculated based on net operating income from hotel operations plus amortization less the capital replacement reserve, in excess of a threshold. The agreements mature from December 31, 2023 to December 31, 2047. For the year ended December 31, 2012, total management fees paid to Fairmont for these hotels were \$5.1 million (2011 - \$3.8 million).

### **Other Agreements with the Manager**

Pursuant to the amended and restated administrative services agreements dated as of July 1, 2012, the Manager provides to the REIT and the Operator certain administrative and support services, including the provision of: (i) office space and office equipment; (ii) communications and computer systems; and (iii) such administrative and secretarial support services as reasonably required from time to time to support the ongoing administration and operation of the REIT and the Operator. Such services will be provided on a cost recovery basis

pursuant to a budget to be agreed and approved annually by 66 2/3% of the Independent Trustees.

The administrative services agreements have the same term as the Master Hotel Management Agreement. The REIT and the Operator may terminate their respective administrative services agreements if the Master Hotel Management Agreement is terminated. The aggregate fee paid to the Manager for the provision of the services under the administrative services agreements for the year ended December 31, 2012 was \$478,000 (2011 - \$456,000). This amount is included in the total amount paid under the Master Hotel Management Agreement as noted under the caption “— Master Hotel Management Agreement”.

For certain hotels owned by InnVest and not managed by the Manager, the Manager is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of hotel operating income, subject to an annual minimum fee, pursuant to an asset supervisory agreement between the Manager, the Operator and a subsidiary of the Operator. For the year ended December 31, 2012, total asset management fees paid were \$1.9 million (2011 - \$2.0 million). This amount is included in the total amount paid under the Master Hotel Management Agreement as noted under the caption “— Master Hotel Management Agreement”.

## AUDIT COMMITTEE

The audit committee of the REIT consists of Frank Anderson (Chairman), Michael P. Kitt and Minhas N. Mohamed, each of whom is an independent trustee who is financially literate in accordance with National Instrument 52-110 – *Audit Committees* (“NI 52-110”) adopted by the Canadian Securities Administrators. The following table describes the education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member.

<b>Name of Audit Committee Member</b>	<b>Relevant Education and Experience</b>
Frank Anderson	<ul style="list-style-type: none"><li>• Senior partner in the Toronto office of a major accounting firm until his retirement in 1999</li><li>• Undergraduate degree in Economics</li><li>• C.A. designation from the Institute of Chartered Accountants of Scotland</li></ul>
Michael P. Kitt	<ul style="list-style-type: none"><li>• Fellow of the Institute of Chartered Accountants of Ontario</li><li>• Executive Vice President, Canada of Oxford Properties Group, an owner, developer, investor and manager of real estate</li><li>• From 1996 to October 31, 2006 was the Executive Vice-President, Development for a major commercial real estate company, which invests in, owns and manages commercial real estate</li><li>• Prior to 1996, was Portfolio Manager, Real Estate for the Ontario Teachers’ Pension Plan Board</li></ul>
Minhas N. Mohamed	<ul style="list-style-type: none"><li>• Chartered Financial Analyst</li><li>• President, C.E.O. and Co-Founder of MMV Financial Inc. and has over 20 years of experience in the financing of technology and emerging growth companies</li><li>• Chartered Accountant</li><li>• Chartered Financial Analyst</li></ul>

The audit committee charter of the REIT is attached to this Annual Information Form as Appendix B. The REIT's policies and procedures for the engagement of the external auditor for non-audit services are set forth in section 8.2 of the REIT's audit committee charter.

### **Fees Paid to Auditors**

The table below summarizes the fees paid by the REIT and its subsidiaries to Deloitte LLP during 2012 and 2011.

	<b>2012</b>	<b>2011</b>
Audit Fees <sup>(1)</sup>	\$475,000	\$475,000
Audit-Related Fees <sup>(2)</sup>	266,000	573,000
Tax Fees	-	-
All Other Fees <sup>(3)</sup>	-	22,500
	<b>\$741,000</b>	<b>\$1,070,500</b>

Notes:

- 1) Audit services related to the REIT's audited annual financial statements.
- 2) Assurance and related services that were reasonably related to the performance of the audit or review of the REIT's financial statements (or those of its subsidiaries) and are not reported under Audit Fees. The services comprising such fees were primarily related to the quarterly reviews of the REIT's financial statements and management discussion and analysis as well as services related to pension plan and property-specific audits. In 2011, audit-related fees also included services relating to InnVest's transition to IFRS, corporate restructuring to a stapled REIT as well as the review of a stapled unit and stapled convertible debenture prospectus.
- 3) The services comprising such fees were related to professional services rendered for translation services.

## **RISK FACTORS**

### **Real Estate Investment Risks**

As InnVest owns hotel properties, its investments are subject to risks generally incident to the ownership of real property. One of the factors contributing to the underlying value of InnVest's real estate investments and its income and ability to make distributions to its Unitholders is the ability of the Operator and its subsidiary partnerships under the supervision of the Manager, to operate the hotels in the Portfolio and any subsequently acquired hotels in a manner sufficient to maintain or increase revenues and to generate sufficient income in excess of operating expenses. Income from the hotels may be adversely affected by changes in national economic conditions, changes in local market conditions due to changes in general or local economic conditions and neighbourhood characteristics, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate assessed values and taxes payable on such values and other operating expenses, changes in governmental laws, regulations, rules and fiscal policies, changes in zoning laws, civil unrest, acts of God, including earthquakes and other

natural disasters and acts of terrorism or war (which may result in uninsured losses). When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult to both acquire and to sell real property, and also impacts InnVest's ability to refinance properties on reasonable terms. Finally, governments can, under eminent domain laws, expropriate or take real property for less compensation than an owner believes the property is worth. Almost all of these factors are beyond the control of InnVest and the Manager.

Real estate investments are relatively illiquid. There can be no assurance that InnVest will be able to dispose of an investment when it finds disposition advantageous or necessary or that the sale price of any disposition will recoup or exceed the amount of InnVest's investment. The ability of InnVest to vary its real estate portfolio in response to changes in economic and other conditions will be limited. If InnVest were required to liquidate its real property investments, the proceeds to it might be significantly less than the aggregate carrying value of its properties.

InnVest has announced an intention, as part of its Strategic Plan, to divest 24 non-core properties over two years for gross sale proceeds of approximately \$185.0 million and net proceeds after debt repayment and selling costs of approximately \$60.0 million, and to undertake capital expenditures of approximately \$130.0 million over two years in certain of its remaining hotel properties. There can be no assurance that InnVest will be able to dispose of the 24 non-core properties for the aggregate proceeds or within the timeframes contemplated, or that InnVest will generate an adequate return on investment in respect of its capital expenditures.

### **Hotel Industry Risks**

The REIT directly or indirectly owns and (through the Operator) operates hotels. As a result, InnVest is subject to the operating risks inherent in the Canadian hotel industry. These risks include:

- cyclical downturns arising from changes in general and local economic conditions;
- changes in the level of business and commercial travel and tourism;
- increases in the supply of accommodations in local markets which may adversely affect the results of operations;
- competition from other hotels;
- the recurring need for renovation, refurbishment and improvement of hotel properties;
- changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulations, changes in interest rates or currency fluctuations;
- seasonal fluctuations in hotel operating income produced throughout the year;
- availability of financing for operating or capital requirements;



- increases in operating costs due to inflation which may not necessarily be offset by increased room rates;
- increases in expenses of travel, particularly automotive travel; and
- other factors, including medical concerns related to travelling to Canada, acts of terrorism, natural disasters, extreme weather conditions and labour shortages, work stoppages or disputes.

In addition to the foregoing, there are economic trends and factors that may be beyond InnVest's control which affect its operations and business. Such trends and factors include adverse changes in the conditions in the hotel industry, including those described above, and the conditions in the domestic or global economy generally. Such trends and factors could result in geographical disparities among regions. Although InnVest's performance is affected by the general condition of the economy, not all of its service areas are affected equally. It is not possible for management to accurately predict economic fluctuations and the impact of such fluctuations on InnVest's performance.

### **Competition**

The Canadian hotel industry is highly competitive. Each of the hotels in the Portfolio is located in an area that includes other hotels owned or operated by third parties. InnVest competes locally and regionally with existing hotels and will compete with hotels that may be developed in the future. Some of the competitors of hotels in the Portfolio may have substantially greater marketing and financial resources than InnVest. The number of competitive hotel properties in a particular area could have a material adverse effect on the occupancy rates and ADR of the hotels in the Portfolio.

The Westmont Group continues to own hotels and, subject to the non-competition arrangement relating to the acquisition of limited service hotels in Canada competing in the budget or economy sector of the hotel market, may, in certain circumstances, acquire additional hotels, including limited service hotels that compete with InnVest properties. At December 31, 2012, an affiliate of the Manager managed approximately 24 hotels in Canada that are not included in the Portfolio, and the Westmont Group may manage additional hotels not owned by InnVest, including limited service hotels. These managed properties may also compete with properties owned by InnVest.

### **Availability of Cash Flow**

Distributable Income accruing to Unitholders may exceed actual cash available to InnVest from time to time because of items such as principal repayments, capital expenditures, seasonal fluctuations in operating results and redemption of REIT Units, if any. InnVest may be required to borrow funds or reduce distributions in order to accommodate such items. InnVest anticipates temporarily funding such items, if necessary, through its operating loan facility, to the extent that it is available.

## Cash Distributions Are Not Guaranteed and May Fluctuate with InnVest's Performance

Cash distributions are not guaranteed and may fluctuate with InnVest's performance. InnVest depends on revenue generated from the Portfolio to make such distributions. There can be no assurance regarding the amount of revenue generated by the Portfolio. The amount of Distributable Income will depend upon numerous factors, including the profitability of the Portfolio, fluctuations in working capital, interest rates, capital expenditures, InnVest's status as a Qualifying REIT for Canadian income tax purposes and other factors which may be beyond InnVest's control. If the Trustees determine that it would be in the best interests of the REIT, they may reduce for any period the percentage of Distributable Income to be distributed to the Unitholders. In November 2008, September 2009 and November 2011, InnVest announced reductions in its monthly distribution paid to Unitholders. The reductions were implemented in light of the uncertain economic conditions which existed at the time and the Trustees' desire to strengthen InnVest's balance sheet and liquidity.

In order to ensure that the REIT Units are accounted for as equity under IFRS, the REIT is not obligated by the Declaration of Trust to distribute a minimum percentage of Distributable Income to Unitholders. If the REIT does not distribute in a year an amount at least equal to its net income for income tax purposes, it generally will be subject to tax on the deficiency at the top individual marginal rate.

## Borrowing Risks

The following table summarizes InnVest's indebtedness at December 31, 2012:

	<b>As at December 31, 2012 (\$ in millions)</b>	<b>Financial Leverage Ratio</b>
Indebtedness excluding the Debentures	\$ 781.5	46.2%
Indebtedness including the Debentures	\$ 1,087.9	64.3%

InnVest is subject to the risks associated with debt financing, including the risks that cash flow from operations will be insufficient to meet required payments of principal and interest, the risk that existing debt will not be able to be refinanced or that the terms of such refinancings will not be as favourable to InnVest. In such circumstances, if InnVest was in need of capital to repay indebtedness in accordance with its terms or otherwise, it could be required to liquidate one or more investments in hotel properties at times which may not permit realization of the maximum return on such investments or could be required to agree to additional financing on unfavourable terms.

In addition, InnVest is subject to the risk that its interest expense may increase on the refinancing of existing indebtedness or on any portion of its indebtedness that bears interest at floating rates if interest rates increase, which could have a material adverse effect on the results of operations of InnVest and its ability to make distributions. As at December 31, 2012, 10.4% of InnVest's mortgage debt is at a floating rate.

InnVest's financing arrangements contain certain covenants, including a covenant that the lender under an existing credit facility shall have the right to approve any change of the hotel manager for the relevant Hotel Properties, covenants restricting transfers of the relevant Hotel Properties, including transfers among InnVest and its affiliates, covenants restricting InnVest's ability to sell the Operator and covenants to provide cash reserves for major capital expenditures from time to time. Future financing agreements may contain similar, or more restrictive, provisions and covenants. If InnVest fails to comply with the restrictions in current or future financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross default or cross acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against InnVest. Credit facilities typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met.

InnVest and the Operator have granted security interests over substantially all of their assets to secure indebtedness owing under mortgages and credit facilities. If InnVest is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

## **Tax Related Risks**

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

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

### ***Mutual Fund Trust Status of the REIT***

Management of InnVest believes that the REIT qualifies as a “mutual fund trust” for purposes of the Tax Act. However, if it was determined that the REIT did not qualify as a mutual fund trust for purposes of the Tax Act, there likely would be material adverse consequences to the REIT and the Unitholders, including the REIT becoming subject to a 36% tax under Part XII.2 of the Tax Act on all or substantially all of its income in any taxation year in which it was determined not to have qualified as a mutual fund trust. As the REIT does not intend to file its trust returns on the basis that it is subject to Part XII.2 tax, there may be no ability of any Unitholders to receive a refund of all or any portion of their pro rata share of any subsequent assessment by the CRA of the REIT for Part XII.2 tax for such taxation year.

### **Availability of Additional Capital**

InnVest utilizes cash flow from operations and credit facilities to support operating requirements, to fund capital expenditures, to make acquisitions and to pay distributions to Unitholders. Each year, InnVest sets aside between 3% and 5% of revenues at each hotel for the replacement of its furniture, fixture and equipment reserve and capital improvements (“FF&E reserve”). For the year ended December 31, 2012, InnVest invested \$37.2 million in capital expenditures within the Portfolio. This compares to InnVest’s FF&E reserve of \$25.6 million for the year. The incremental \$11.6 million invested above the notional FF&E reserve in 2012 reflects a number of profit-improving projects designed to increase cash flow and improve profitability including room and public space renovations at several Delta branded hotels as well as brand upgrades at a number of our Holiday Inn and Hilton hotels. InnVest has announced an intention, as part of its Strategic Plan, to undertake capital expenditures of approximately \$130.0 million over two years in certain of its hotel properties.

Where the cost of capital improvements exceeds the FF&E reserve, or the cost of certain capital improvements reduces the reserve to significantly lower levels, InnVest will be required to fund these activities principally by issuing additional equity or incurring additional indebtedness. Access to capital markets for additional equity financings and the availability of additional borrowing will depend on prevailing market conditions and the acceptability of the terms offered. The Declaration of Trust prohibits the REIT from incurring or assuming any indebtedness if it would result in the Financial Leverage Ratio exceeding 60% (75% including convertible debentures).

In the first quarter of 2013, InnVest completed a public offering of \$115.0 million aggregate principal amount of 5.75% Series G Debentures. Approximately \$75.0 million of such proceeds were used for the redemption of InnVest’s 6.00% Series B Debentures due May 31, 2013. There can be no assurance that InnVest will be able to complete additional equity financings or borrow additional funds on terms acceptable to it, or at all. If InnVest were unable to secure additional funding for acquisitions or capital improvements, including those contemplated in its Strategic Plan, it would be required to curtail these activities, which could have a material adverse effect on its results of operations and financial condition. Were this to occur, the amount of monthly cash distributions could be negatively affected.

## **Lender Concentration**

At December 31, 2012, InnVest has outstanding indebtedness with a variety of lenders including Canadian banks, institutional lenders, life insurance companies, credit unions and commercial mortgage backed securities lenders. At December 31, 2012, over 80% of InnVest's outstanding indebtedness (excluding convertible debentures) is with one lender. There is a limited pool of lenders able to finance debt of significant size in the Canadian market, particularly for borrowers in the hospitality industry. InnVest is subject to the risk that its lenders, particularly its largest lender, may tighten borrowing conditions and be unable to renew financing on terms acceptable to InnVest, or at all. If InnVest's currently outstanding debt is refinanced on less favourable terms or cannot be refinanced on terms acceptable to InnVest this may negatively impact its Distributable Income.

## **Franchised Hotels**

With the exception of three independent hotels, each of the hotels in the Portfolio (including the hotels branded under Choice Canada flags) is subject to a franchise agreement, and any hotels InnVest invests in after the date of this Annual Information Form may also be operated under franchise agreements. The continuation of the franchises is subject to specified operating standards and other terms and conditions. Such standards are often subject to change over time, in some cases at the discretion of the franchisor, and may restrict a franchisee's ability to make improvements or modifications to a hotel property without the consent of the franchisor. Franchisors typically periodically inspect licensed properties to confirm adherence to operating standards. The failure of a hotel in the Portfolio to conform to such standards or the failure of InnVest or the Operator to maintain such standards or adhere to such other terms and conditions could result in the loss or cancellation of the franchise agreement and potential liquidated damages. In a large portfolio, it is typical that, each year, several hotels will fail to pass such inspections. From time to time, hotels in the Portfolio have not passed an inspection but have subsequently passed inspections upon correction of noted deficiencies. It is possible that a franchisor could condition the continuation of a franchise agreement on the completion of capital improvements which the Trustees determine are too expensive or otherwise unwarranted in light of general economic conditions or the operating results or prospects of the affected hotel. In that event, the Trustees may elect to allow the franchise agreement to lapse. If a franchise were terminated, InnVest would generally seek to obtain a suitable replacement franchise. However, there can be no assurance that InnVest would be able to obtain a suitable replacement franchise on acceptable terms, or at all. The loss of a franchise agreement could have a material adverse effect upon the operations or the underlying value of the hotel covered by the franchise because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor.

Eighty-eight of the hotels in the Portfolio are operated under Choice Canada franchises. Despite the Operator's 50% indirect ownership of Choice Canada, under Choice Canada's master franchise agreement with Choice International, the Choice branded hotels in the Portfolio are required to operate to standards determined by Choice Canada, and representatives of Choice Canada must approve any hotel to be re-flagged under a Choice flag. InnVest is subject to risks related to the concentration in the Portfolio of hotels operating under the Choice flags, including the risk of a reduction in hotel revenue following any adverse publicity related to the Choice

flags, which could have a material adverse effect on InnVest's results of operations and financial condition.

### **Reliance on Franchisees by Choice Canada**

The growth of Choice Canada's business is, in part, dependent on its ability to attract and retain qualified franchisees in Canada and on the ability of Choice Canada's franchisees to maximize penetration of their designated markets and operate their hotels successfully. Although Choice Canada has established criteria to evaluate prospective franchisees, there can be no assurance that its existing or future franchisees will have the business abilities or access to financial resources necessary to open the required number of hotels or that they will successfully develop or operate these hotels in their franchise areas in a manner consistent with Choice Canada's standards. There can be no assurance that Choice Canada will be able to attract qualified franchisees.

### **Unpredictability and Volatility of Unit Price**

The REIT Units will not necessarily trade at values determined by reference to the underlying value of InnVest's business. The prices at which the REIT Units will trade cannot be predicted. The market price of the REIT Units could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the REIT Units as compared to the annual yield on other financial instruments may also influence the price of REIT Units in the public trading markets.

The global securities market, including the Canadian real estate investment trust market, experienced significant declines during 2008 and early 2009. The REIT Units also experienced significant declines in July 2011 following the announcement of changes to Canadian federal income tax legislation affecting issuers of stapled securities. The securities market may experience further volatility, which may adversely affect the market price of the REIT Units. These declines can be unrelated or disproportionate to the operating performance, underlying asset values or prospects of particular issuers.

### **Consumer Privacy and Data Use and Security**

InnVest and its customers are subject to regulations related to privacy and data use and security. Failure to adequately restrict logical or physical access to information (data or programs) could result in the unauthorized knowledge and use of confidential information by others.

In mid-2010, new standards relating to credit card payment security were implemented. The Payment Card Industry Data Security Standard ("PCI DSS") is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer payment card account data. All entities that transmit, process or store payment card data must be compliant with PCI DSS.

Regulation of privacy, data use and security may materially increase InnVest's and its customers' costs. Failure to comply with the privacy and data use and security laws, regulations and/or standards, specifically PCI DSS, could result in financial penalties to InnVest as well as the risk of losing its ability to process credit card payments at hotels.

### **Future Sales of Securities**

As at March 22, 2013, 93,702,704 REIT Units were outstanding (144,383,622 REIT Units after giving effect to the conversion of all convertible debentures). The Westmont Group owns 9.2% of the REIT Units (6.0% of the REIT Units after giving effect to the conversion of all convertible debentures). All of the currently outstanding REIT Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. The Westmont Group, or other large Unitholders, may at any time sell any or all of the REIT Units or other securities of the REIT that they own.

Sales of a substantial number of REIT Units or other securities of the REIT in the public market could adversely affect the prevailing market price of the REIT Units or other securities of the REIT and could impair InnVest's ability to raise additional capital through an offering of equity securities.

### **Potential Labour Disruptions**

A significant number of the employees employed at the hotels in the Portfolio are unionized and governed by collective agreements. The bargaining rights of the unions at these hotels are site specific to the employees at each particular hotel. Individual hotels have experienced, and may in the future experience, labour disruptions or difficulties which could affect the short term operating performance of particular hotels. Relations with employees could deteriorate due to disputes related to, among other things, wage or benefit levels or InnVest's response to changes in government regulation of workers in the workplace. Hotel operations rely heavily on employees. Any labour shortage or stoppage caused by disagreements with employees, including unionized employees, could adversely affect the ability of InnVest's hotels to operate, its occupancy and room revenue, and/or damage InnVest's reputation. Any such labour difficulties could have a material adverse effect on InnVest's results of operations, business, prospects and financial condition.

### **Acquisition Risks**

In addition to seeking operational efficiencies in the operation of the Portfolio, InnVest may seek to increase cash flow and enhance REIT Unit value by acquiring additional hotel properties that meet its investment criteria and by applying its operating strategy to improve the financial performance of the subsequently acquired hotels. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the costs of improvements to bring an acquired property up to appropriate standards will prove inaccurate, as well as general investment risks associated with any new real estate investment.

## **Environmental Risks**

Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the costs of remediation of contamination or hazardous or toxic substances on, under or in a property. Environmental laws and regulations often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such contamination or hazardous or toxic substances. In addition, the presence of contamination or hazardous or toxic substances, or the failure to remediate contamination properly, may adversely affect the owner's ability to borrow using a property as collateral. In connection with the ownership of the Portfolio, InnVest may be potentially liable for any such remediation costs.

In connection with InnVest's acquisition of the Portfolio, Phase I environmental site assessments and, where appropriate, Phase II environmental site assessments were completed in respect of each of the Hotel Properties. Based on the results of these assessments, InnVest believes that the Hotel Properties are operated in substantial compliance with all material environmental laws and regulations and that the current estimated cost of remediation or capital expenditures with respect to actual or potential environmental conditions will not have a material adverse effect on InnVest's results of operations, business, prospects and financial condition. There can be no assurance that such assessments have identified all material environmental contamination or hazardous or toxic substances or violations of environmental laws or regulations. Further, the costs involved for remediation of the contaminated property can be difficult to estimate and could exceed current estimated amounts.

The Operator, directly or through its subsidiary partnerships, intends to make the necessary capital and operating expenditures to comply with environmental laws and regulations. Although there can be no assurances, InnVest does not believe that costs relating to environmental matters will have a material adverse effect on its results of operations, business, prospects and financial condition. However, environmental laws and regulations may change and InnVest or its subsidiaries may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations may have a material adverse effect on InnVest's results of operations, business, prospects and financial condition. Environmental laws and regulations may also limit future development or expansion of the Hotel Properties.

## **Uninsured and Underinsured Losses**

The Declaration of Trust requires that the REIT obtains and maintains at all times insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. Management believes that the insurance coverage to be maintained is of the type and amount customarily obtained for or by an owner of real property assets. However, there are certain types of losses, generally resulting from catastrophic events, such as earthquakes and floods or acts of terrorism that may be uninsurable or not economically insurable. The Trustees will use their discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage



on InnVest's investments at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of InnVest's lost investment. Certain factors, including inflation, changes in building codes and ordinances and environmental considerations, also might make it unattractive to use insurance proceeds to replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received by InnVest might not be adequate to restore its economic position with respect to such property.

### **Reliance on Key Personnel**

InnVest and the Manager depend on the services of certain key personnel. The loss of the services of any of these key personnel could have a material adverse effect on InnVest. In 2012, Kenneth Gibson retired as President and Chief Executive Officer of InnVest and Tamara Lawson resigned as Chief Financial Officer of InnVest and the Manager. Mr. Gibson and Ms. Lawson had held those positions since the formation of InnVest in 2002. Anthony Messina is serving as interim President and Chief Executive Officer of InnVest until a permanent replacement is found. George Kosziwka was appointed Chief Financial Officer of InnVest. In addition, certain of InnVest's key personnel are generally required to devote only 50% of business hours to managing the affairs of InnVest.

### **Dependence on and Relationship with the Manager**

The Manager provides hotel management services to the Operator and its subsidiary partnerships. InnVest is dependent on the Manager with respect to the management and the operation of the hotels in the Portfolio. Under the Master Hotel Management Agreement, the Westmont Group may sell the Manager or sell or assign the Master Hotel Management Agreement subject, in each case, to the approval of not less than 66 2/3% of the Independent Trustees, which shall not be unreasonably withheld if the person acquiring the agreement or control of the Manager is a hotel management company having comparable experience and operating and service standards equal to or better than those of the Manager and if all necessary third party consents and other approvals have been obtained without adverse consequence to InnVest. The Manager currently has the right to terminate the Master Hotel Management Agreement, generally on six months' notice. There is no assurance that the strategic relationships between InnVest and the Manager will be maintained in the future. There can be no assurance that if the Manager were to terminate the Master Hotel Management Agreement a suitable replacement would be found.

### **Termination Rights under Master Hotel Management Agreement**

The Master Hotel Management Agreement has been effective since July 26, 2002 and was amended and restated on December 31, 2010 and July 1, 2012. The initial term was 10 years with two five year renewal rights subject to the consent of the Manager and approval of the Independent Trustees. In 2008, the REIT exercised the first five-year extension term on the Master Hotel Management Agreement, extending the expiry to July 25, 2017.

During any renewal term, there is no express right of termination by InnVest absent customary events of default, including bankruptcy or insolvency proceedings or similar events, or underperformance over two consecutive years relative both to budget and to average RevPAR of a competitive set of limited service hotels. In the event that hotels representing less than 10% of the Gross Book Value of the Portfolio are sold in any 12 month period and the Manager is not continued as manager of the hotels, InnVest has the ability to terminate the agreement in respect of the hotels sold upon the payment of an amount equal to the base and incentive fee allocable to the hotels during the preceding twelve months. In the event that hotels representing more than 10% of the value of the initial Portfolio are sold in any 12 month period and the Manager is not continued as manager of the hotels, then the termination fee will be based on the base and incentive fees during the preceding 36 months allocable to the hotels being sold that represent in excess of 10% of the Gross Book Value of the Portfolio.

### **Potential Conflicts of Interest**

The REIT was established to purchase, directly and indirectly, the original portfolio of 114 hotel properties. The Independent Trustees have not received independent advice pertaining to the agreements that were entered into by the REIT, the Manager and the REIT's promoters in connection with the purchase of the original portfolio and the REIT's initial public offering.

In addition, InnVest may be subject to various conflicts of interest because of the fact that the Manager and its respective directors, officers and associates, as well as the Trustees, are engaged in a wide range of business activities, including hotel management, acquisition and ownership. Additionally, certain Trustees and officers of the REIT are officers and directors of entities that are a part of the Westmont Group, which could give rise to conflicts of interest. InnVest may become involved in transactions which conflict with the interests of the foregoing. The trustees and officers of the REIT and associates or affiliates of the Manager may from time to time deal with persons, firms, institutions or corporations with which InnVest may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of InnVest. In addition, from time to time, these persons may be competing with InnVest for available investment opportunities. The Declaration of Trust contains provisions to address these potential conflicts of interest. See "Management Structure – Conflict of Interest Restrictions and Provisions" and "Management Structure – Independent Trustee Matters".

### **Deterrents to Acquisition of the REIT**

Holders of Debentures may redeem such Debentures at a redemption price of 101% in the event of a change of control of the REIT. Further, the Manager has a right, in certain circumstances, to terminate the Master Hotel Management Agreement in the event of a change of control, in which circumstances it would receive a fee equal to the base fee and incentive fee under such agreement for the preceding 12 months. In addition, the REIT has implemented a unitholder rights plan (see "Description of REIT Units and Declaration of Trust – Unitholder Rights Plan").

## **Restrictions on Certain Unitholders and Liquidity of Units**

The Declaration of Trust imposes restrictions on non-resident Unitholders, who are prohibited from beneficially owning more than 49% of the REIT Units. This restriction may limit the rights of certain Unitholders, including non-residents of Canada, to acquire such units, to exercise their rights as Unitholders and to initiate and complete take-over bids in respect of such units. In addition, the REIT has implemented a unitholder rights plan (see “Description of REIT Units and Declaration of Trust – Unitholder Rights Plan”). The unitholder rights plan restrictions may deter certain Unitholders from acquiring additional REIT Units in excess of 20% of the outstanding REIT Units. As a result, these restrictions may limit the demand for REIT Units from certain Unitholders and thereby adversely affect the liquidity and market value of the REIT Units held by the public.

## **Structural Subordination of Units**

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the REIT or the applicable subsidiaries before any assets are made available for distribution to the Unitholders. The REIT Units will be effectively subordinated to most of the indebtedness and other liabilities of the REIT and its subsidiaries, valued at approximately \$1.1 billion as at December 31, 2012. Neither the REIT nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

## **Redemption Right**

It is anticipated that the redemption right attaching to REIT Units will not be the primary mechanism for Unitholders to liquidate their investments. Cash redemptions are subject to limitations as described under “Description of REIT Units and Declaration of Trust – Redemption Right”. Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange. No established market is expected to develop in such notes and they may be subject to resale restrictions under applicable securities laws.

## **Nature of Units**

Securities such as the REIT Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. As holders of REIT Units, Unitholders do not have certain statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions or to exercise “dissent rights”.

## **Possibility of Unitholder Liability**

Recourse for any liability of the REIT is intended to be limited to its assets. The Declaration of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder

acts as trustee or carrier (an “annuitant”) will be held to have any personal liability as such, and that no resort shall be had to the private property of any Unitholder or annuitant to satisfy any obligation or claim arising out of or in connection with any contract, obligation or liability of the REIT or the Trustees.

On December 16, 2004, the *Trust Beneficiaries’ Liability Act, 2004* (Ontario) came into effect. This statute protects annuitants and Unitholders of the REIT, in their capacity as beneficiaries, from liability for any act, default, obligation or liability of the REIT or any of the Trustees arising on or after December 16, 2004. However, because of uncertainties in the law relating to investment trusts prior to December 16, 2004, there is a risk (which is considered by counsel to be remote in the circumstances) that a Unitholder or annuitant could be held personally liable for obligations of the REIT (to the extent that claims are not satisfied by the REIT) in respect of breaches of contracts that the REIT entered into, and for certain liabilities arising other than out of contract including claims in tort, claims for taxes, and possibly certain other statutory liabilities that arose, prior to December 16, 2004. The Trustees have caused the REIT’s operations to be conducted in such a way as to minimize any such risk, including by obtaining appropriate insurance and, where feasible, attempting to have every material written contract or commitment of the REIT contain an express disavowal of liability against the Unitholders (which in the opinion of the REIT’s counsel will be effective). However, in conducting its affairs, the REIT has acquired real property investments, which may be subject to existing contractual obligations, including under leases. Where possible, the REIT has used reasonable efforts to have any of these obligations modified so as not to be binding on any of the Unitholders or annuitants personally.

## **LEGAL PROCEEDINGS**

InnVest is not involved in any legal proceedings which could have a material effect on InnVest other than as noted below.

In November 2011, Morguard Corporation (“Morguard”) initiated a proceeding in the Ontario Superior Court of Justice against InnVest and Delta Hotels Limited (“Delta”) in respect of the National Hotel & Suites in Ottawa, Ontario (the “Ottawa Hotel”), a hotel that was operated under the Delta flag until January 2012, when the hotel management agreement between Delta and a subsidiary of InnVest expired. InnVest leases the real property on which the Ottawa Hotel is situated from Morguard. Morguard is seeking, among other things, \$20 million in damages for breach of the lease for the Ottawa Hotel. InnVest is contesting the claim and believes it has strong defences to the claim, including a potential cross-claim against a prior tenant. The proceeding is still at its early stages. At this time, the amount of InnVest’s liability, if any, related to the claim is uncertain. InnVest has not taken any provision for this claim in its financial statements for the year ended December 31, 2012.

## **INTEREST OF EXPERTS**

Deloitte LLP has prepared an auditor's report on the annual financial statements of the REIT for the years ended December 31, 2012 and December 31, 2011. Deloitte LLP has advised that they are independent with respect to the REIT within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## **ADDITIONAL INFORMATION**

Additional information relating to the REIT may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including trustees' and officers' remuneration and indebtedness, principal holders of the REIT's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the REIT's information circular for its most recent annual meeting of Unitholders that involves the election of Trustees.

Additional financial information is provided in the REIT's financial statements and MD&A for its most recently completed financial year which are also available at [www.sedar.com](http://www.sedar.com) and on the REIT's website, [www.investreit.com](http://www.investreit.com).

## APPENDIX A

### GLOSSARY OF TERMS

The following terms used in this Annual Information Form have the meanings set out below.

“**ADR**” means the average daily room rate, determined by dividing gross room revenue by the number of occupied room nights in the applicable period.

“**affiliate**” means, with respect to any person or limited partnership, any other person or limited partnership directly or indirectly controlling, controlled by or under direct or indirect, control with, such person.

“**associate**” has the meaning ascribed thereto in the *Securities Act* (Ontario).

“**CBCA**” means the *Canada Business Corporations Act*.

“**Choice Canada**” means Choice Hotels Canada Inc.

“**Choice International**” means Choice Hotels International, Inc.

“**Computershare**” means Computershare Trust Company of Canada.

“**Debentures**” means the convertible unsecured subordinated debentures issued under the 2002 Indenture (6.00% Series B Debentures, 5.85% Series C Debentures, 6.75% Series D Debentures and 6.00% Series E Debentures,), the 2011 Indenture (5.75% Series F Debentures) and the 2013 Indenture (5.75% Series G Debentures).

“**Deloitte LLP**” means Deloitte LLP, the external auditors of the REIT.

“**Distributable Income**” has the meaning ascribed thereto under “Information about this Annual Information Form — Use of ‘Distributable Income’” on page 1 hereof.

“**Exempt Plans**” means trusts governed by registered retirement savings plans, registered retirement income plans, registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts, each as defined in the Tax Act.

“**Existing Management Agreements**” means the hotel management agreements existing at the time of the REIT’s initial public offering between a subsidiary of the Operator and certain subsidiaries of the REIT in respect of the day-to-day management of the Hotel Businesses at certain of the Hotel Properties, which management responsibilities were delegated to the Manager pursuant to the Master Hotel Management Agreement.

“**Financial Leverage Ratio**” means, at any time, the ratio of total consolidated indebtedness of the REIT as of such time and calculated in accordance with IFRS, but excluding indebtedness under any operating line, non-interest bearing indebtedness, trade accounts

payable and, for greater certainty, deferred income tax liability to Gross Book Value as of such time.

“**Gross Book Value**” means, at any time, the aggregate book value of the assets of the REIT and its consolidated subsidiaries as of such time, plus the amount of accumulated depreciation and amortization on such assets as of such time, less the amount of deferred income tax liability arising out of the acquisition of the assets directly and indirectly acquired by the REIT as of such time.

“**Hotel Businesses**” means, collectively, the hotel businesses currently carried on at the Hotel Properties consisting of all of the assets involved in the operation of such properties, other than the Hotel Properties themselves, but including all furniture, moveable equipment, licences, contracts, inventory and goodwill in connection therewith, and, where the context requires, includes hotel businesses associated with any additional Hotel Properties acquired by InnVest.

“**Hotel Properties**” means, collectively, the real property, buildings, fixtures (including attached equipment) and leasehold interests, if any, in the 135 hotel properties (excluding the Hotel Businesses) in the Portfolio and, where the context requires, includes any additional hotel properties acquired by InnVest.

“**IFRS**” International Financial Reporting Standards applicable to reporting issuers in Canada.

“**Independent Trustee**” means a Trustee who is “unrelated” within the meanings of Sections 1.4 and 1.5 of National Instrument 52-110 – *Audit Committees* adopted by the Canadian Securities Administrators. A person serving as a nominee of the Westmont Group pursuant to a right to appoint such person under the Declaration of Trust is deemed not to be an Independent Trustee.

“**Manager**” means Westmont Hospitality Canada Limited and its successors or permitted assigns under the Master Hotel Management Agreement.

“**Maple Leaf**” means Maple Leaf Investment Holdings, L.P., an affiliate of the Manager.

“**Master Hotel Management Agreement**” means the second amended and restated master hotel management agreement dated as of July 1, 2012 between the Operator, the Manager and others and includes, except where the context otherwise indicates, management responsibilities under the Existing Management Agreements delegated to the Manager and any other hotel management agreements executed from time to time between InnVest or its subsidiaries and the Manager with respect to individual hotels in the Portfolio.

“**Operator**” means InnVest Hotels LP, a limited partnership established under the laws of the Province of Manitoba, and includes, unless otherwise indicated or the context otherwise requires, wholly owned subsidiary partnerships of the Operator.

“**Portfolio**” means, collectively, the Hotel Properties and the Hotel Businesses.

“**REIT Units**” means the trust units of the REIT.

“**Related Party**” means, with respect to any person, a person who is a “related party”, as that term is defined in Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* adopted by the Ontario Securities Commission and the Autorité des marchés financiers, as amended from time to time (including any successor rule or policy thereto), and, with respect to the REIT, shall (a) include the Westmont Group and its affiliates and associates as long as the Westmont Group continues to have the right pursuant to the Declaration of Trust (which has not been renounced) to appoint one or more nominees to the board of trustees of the REIT or to act as hotel manager for the Portfolio, and (b) exclude any wholly-owned subsidiary of the REIT.

“**RevPAR**” means revenue per available room, determined by dividing gross room revenues by the number of available room nights in the applicable period.

“**Special Resolution**” means a resolution passed by not less than 66 $\frac{2}{3}$ % of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution, or approved in writing by the holders of not less than 66 $\frac{2}{3}$ % of the REIT Units entitled to be voted on such resolution.

“**Stapled Unit**” means collectively one REIT Unit and one InnVest Operating Trust non-voting unit, which, after the 2010 Reorganization and prior to the 2012 Reorganization, were required to trade together on the TSX.

“**subsidiary**” means, with respect to any person, trust or limited partnership, any other person or limited partnership directly or indirectly controlled by such person.

“**Tax Act**” means the *Income Tax Act* (Canada), as amended.

“**Trustees**” means the trustees of the REIT from time to time.

“**TSX**” means the Toronto Stock Exchange.

“**Unitholders**” means the holders from time to time of REIT Units.

“**Westmont Group**” means the group of entities under common control commonly referred to as the Westmont Hospitality Group, including Westmont Hospitality Group, Inc., Westmont Hospitality Management Limited, the Manager, Maple Leaf, Westmont Holdings and other related companies.

“**Westmont Holdings**” means, collectively, Maple Leaf Investments, L.P., Maple Leaf Investments, Inc., Charter Hospitality L.P. and certain of their affiliates.

“**Westmont Restricted Parties**” means, collectively, the Westmont Group, certain of the Westmont Group principals and other entities managed or controlled by those principals. No other person will be considered a “Westmont Restricted Party” even if it is a Related Party of one of the Westmont Restricted Parties.



“**2002 Indenture**” means collectively, the trust indenture dated July 26, 2002 between the REIT and Computershare, the first supplemental indenture dated April 2, 2004 between the REIT and Computershare, the second supplemental indenture dated May 16, 2006 between the REIT and Computershare, the third supplemental indenture dated August 3, 2007 between the REIT and Computershare, the fourth supplemental indenture dated December 30, 2009 between the REIT and Computershare, the fifth supplemental indenture dated August 13, 2010 between the REIT and Computershare, the sixth supplemental indenture dated December 31, 2010 between the REIT, IOT and Computershare and the seventh supplemental indenture dated July 3, 2012 between the REIT, IOT and Computershare.

“**2011 Indenture**” means collectively, the trust indenture dated March 15, 2011 between the REIT, as issuer, IOT, as guarantor, and Computershare, as debenture trustee and the first supplemental indenture dated July 3, 2012 between the REIT and Computershare.

“**2013 Indenture**” means the trust indenture dated February 27, 2013 between the REIT and Computershare.

“**6.25% Series A Debentures**” means the convertible unsecured subordinated debentures of the REIT due April 15, 2011 with a coupon of 6.25%, which were redeemed in September 2010.

“**6.00% Series B Debentures**” means the convertible unsecured subordinated debentures of the REIT due May 31, 2013 with a coupon of 6.00%.

“**5.85% Series C Debentures**” means the extendible convertible unsecured subordinated debentures of the REIT due August 1, 2014 with a coupon of 5.85%.

“**6.75% Series D Debentures**” means the convertible unsecured subordinated debentures of the REIT due March 31, 2016 with a coupon of 6.75%.

“**6.00% Series E Debentures**” means the convertible unsecured subordinated debentures of the REIT due March 31, 2017 with a coupon of 6.00%.

“**5.75% Series F Debentures**” means the convertible unsecured subordinated debentures of the REIT due March 30, 2018 with a coupon of 5.75%. Prior to the 2012 Reorganization, the 5.75% Series F Debentures were required to be traded, converted or redeemed together with 5.75% convertible unsecured subordinated debentures, Series F, of IOT (together, the “**5.75% Series F Stapled Debentures**”).

“**5.75% Series G Debentures**” means the convertible unsecured subordinated debentures of the REIT due March 31, 2019 with a coupon of 5.75%.

## APPENDIX B

### AUDIT COMMITTEE MANDATE

#### 1. ESTABLISHMENT OF COMMITTEE

1.1 Establishment of the Audit Committee Confirmed. The establishment of the audit committee of the board of trustees of InnVest Real Estate Investment Trust (“InnVest”) is hereby confirmed with the purpose, constitutions and responsibilities herein set forth.

1.2 Definitions. In this mandate:

- (a) “Board” means the board of Trustees of InnVest;
- (b) “Chair” means the chair of the Committee;
- (c) “Committee” means the audit committee of the Board;
- (d) “CPAB” means the Canadian Public Accounting Board;
- (e) “External Auditor” means the person occupying the office of auditor of InnVest in accordance with the declaration of trust of InnVest;
- (f) “GAAP” means Canadian generally accepted accounting principles;
- (g) “Internal Auditor” means the person responsible for the internal audit function of the Manager;
- (h) “Manager” means Westmont Hospitality Canada Limited;
- (i) “Mandate” means this written mandate of the Committee and any such mandate for the Committee which the Board resolves from time to time shall be the mandate of the Committee;
- (j) “MD&A” means management’s discussion and analysis required to be filed by InnVest concurrent with the filing of the annual financial statements or quarterly financial statements of InnVest; and
- (k) “Trustees” means trustees of InnVest.

#### 2. PURPOSE

2.1 The Committee’s purpose is to:

- (a) assist the Board’s oversight of:
  - (i) the integrity of InnVest’s annual and interim financial statements;

- (ii) InnVest's compliance with legal and regulatory requirements relating to financial reporting and the audit process;
  - (iii) the External Auditor's qualifications and independence and the external audit process, including the resolution of disputes between the External Auditor and management of InnVest regarding financial reporting; and
  - (iv) InnVest's systems of internal controls; and
- (b) prepare any report required to be included in InnVest's annual proxy statement relating to the Committee.

### **3. COMMITTEE MEMBERSHIP**

3.1 Number of Members. The Committee shall consist of not fewer than three Trustees.

3.2 Independence of Members. Each member of the Committee shall be independent for the purposes of National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators.

3.3 Financial Literacy.

- (a) *Requirement.* Each member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.
- (b) *Definition.* "Financially literate" shall mean that the Trustee is able to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those that can reasonably be expected to be raised by InnVest's annual and interim financial statements.

3.4 Appointment and Removal of Members.

- (a) *Board Appoints Members.* The members of the Committee shall be appointed by the Board, having considered the recommendation of the compensation and governance committee of the Board.
- (b) *Annual Appointments.* The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the unitholders of InnVest at which Trustees are elected, provided that if the appointment of members of the Committee is not so made, the Trustees who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.
- (c) *Vacancies.* The Board may appoint a Trustee to fill a vacancy which occurs in the Committee between annual elections of Trustees.

- (d) *Removal of a Member.* Any member of the Committee may be removed from the Committee by a resolution of the Board.

#### **4. COMMITTEE CHAIR**

4.1 Board to Appoint Chair. The Board shall appoint the Chair from the members of the Committee (or if it fails to do so, the members of the Committee shall appoint the Chair from among its members).

4.2 Chair to be Appointed Annually. The designation of the Chair shall take place annually at the first meeting of the Board after a meeting of the unitholders of InnVest at which Trustees are elected, provided that if the designation of Chair is not so made, the Trustee who is then serving as Chair shall continue as Chair until his or her successor is appointed.

#### **5. COMMITTEE MEETINGS**

5.1 *Quorum.* A quorum of the Committee shall be a majority of its members and no business shall be transacted by the Committee except at a meeting at which a quorum of the Committee is present.

5.2 *Secretary.* The Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

5.3 Time and Place of Meetings. The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly.

5.4 Right to Vote. Each member of the Committee shall have the right to vote on matters that come before the Committee.

5.5 Invitees. The Committee may invite Trustees, officers and employees of InnVest or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee. The External Auditor shall receive notice of each meeting of the Committee and shall be entitled to attend any such meeting at InnVest's expense.

5.6 In Camera Meetings. As part of each meeting of the Committee at which the Committee considers its recommendation to the Board with respect to the annual and interim financial statements of InnVest, the Committee shall meet separately with each of:

- (a) management of InnVest;
- (b) the External Auditor; and
- (c) the Internal Auditor.

## **6. AUTHORITY OF THE COMMITTEE**

6.1 Retaining and Compensating Advisors. The Committee may retain such outside legal, accounting or other advisors as it may consider appropriate and shall not be required to obtain the approval of the Board in order to retain or compensate such advisors.

6.2 Funding. The Committee shall have the authority to authorize, in its sole discretion, the payment by InnVest of:

- (a) compensation to the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for InnVest;
- (b) compensation for any advisors employed by the Committee under Section 6.1 hereof; and
- (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

6.3 Communication. The Committee shall have the authority to communicate:

- (a) directly with the External Auditor and the Internal Auditor; and
- (b) directly with management of InnVest and to compel management of InnVest to respond to questions of the External Auditor and the Internal Auditor.

## **7. REMUNERATION OF COMMITTEE MEMBERS**

7.1 Trustee Fees Only. No member of the Committee may earn fees from InnVest or any of its subsidiaries other than Trustee's fees (which fees may include cash and/or shares or options or other in-kind consideration ordinarily available to Trustees, as well as all of the regular benefits that other Trustees receive).

7.2 Other Payments. For greater certainty, no member of the Committee shall accept any consulting, advisory or other compensatory fee from InnVest.

## **8. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

8.1 Financial and Related Information.

- (a) *Annual Financial Statements.* The Committee shall review and discuss with management of InnVest and the External Auditor, InnVest's annual financial statements and related MD&A and report thereon to the Board before the Board approves those statements and related MD&A.
- (b) *Interim Financial Statements.* The Committee shall review and discuss with management of InnVest and the External Auditor, InnVest's interim financial

statements and related MD&A and report thereon to the Board the Board approves those statements and related MD&A.

- (c) *Accounting Principles.* The Committee shall review and discuss with management of InnVest and the External Auditor:
  - (i) major issues regarding accounting principles and financial statement presentation, including any significant changes in InnVest’s selection or application of accounting principles;
  - (ii) major issues regarding the adequacy of InnVest’s internal controls over financial reporting and any special audit steps adopted in light of material control deficiencies;
  - (iii) analyses prepared by management of InnVest and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analysis of the effects of alternatives in applying GAAP to the financial statements;
  - (iv) the effect on the annual and interim financial statements of InnVest of regulatory and accounting initiatives, as well as off-balance sheet transactions, structures, obligations (including contingent obligations) and other relationships of InnVest with unconsolidated entities or other persons that have a material current or future effect on the financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses of InnVest;
  - (v) the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented; and
  - (vi) any financial information or financial statements in prospectuses and other offering documents of InnVest.
  
- (d) *Disclosure of Other Financial Information.* The Committee shall discuss with management of InnVest and the External Auditor, if applicable:
  - (i) the types of information to be disclosed and the type of presentation to be made in connection with earnings press releases;
  - (ii) the type of financial information and earnings guidance (if any) provided to analysts and rating agencies; and
  - (iii) press releases of InnVest containing financial information (paying particular attention to any use of “pro forma” or “adjusted” non-GAAP, information) and shall review all earnings press releases before such information is publicly disclosed.

- (e) *Management Certification.* The Committee shall review and discuss the certifications of disclosure in annual and interim filings by management of InnVest, as required by applicable securities laws in Canada or otherwise.
- (f) *Related Party Transactions.* The Committee shall review, from a compliance perspective, all related party transactions of InnVest.
- (g) *Procedures for Review.* The Committee shall be satisfied that adequate procedures are in place for the review of InnVest's disclosure of financial information extracted or derived from InnVest's annual or interim financial statements (other than financial statements, MD&A and earnings press releases, which are dealt with elsewhere in this Mandate) and shall periodically assess the adequacy of those procedures.

## 8.2 External Auditor.

- (a) *Accountability of External Auditor.* The Committee shall require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Committee as representatives of unitholders of InnVest. The External Auditor shall report directly to the Committee and the Committee shall have direct communication channels with the External Auditor to discuss and review specific issues as appropriate.
- (b) *Authority with Respect to External Auditor.* As representative of unitholders of InnVest, the Committee shall be directly responsible for the appointment, compensation and oversight of the work of the External Auditor (including resolution of disagreements between management and the External Auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for InnVest. In this capacity, the Committee shall have sole responsibility for recommending to the Board the person to be proposed to unitholders of InnVest for appointment as External Auditor, the compensation of the External Auditor and whether at any time the incumbent External Auditor should be removed from office.
- (c) *Competency of External Auditor.* Once each year (and otherwise as the Chair may consider appropriate) the Committee shall review a report by the External Auditor indicating:
  - (i) that it is a member in good standing with the CPAB; and
  - (ii) any sanctions or restrictions imposed by the CPAB.
- (d) *Review and Resolution of Audit Problems.* The Committee shall review with the External Auditor any problems or difficulties encountered during the audit, and the *response* thereto by management of InnVest. To the extent possible, the Committee shall resolve any disagreements between management of InnVest and the External Auditor.

- (e) *Independence.* The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:
  - (i) require the External Auditor to submit on a periodic basis to the audit committee, a formal written statement delineating all relationships between the External Auditor and InnVest. The Committee is responsible for reviewing any disclosed relationships or services that may impact the objectivity and independence of the External Auditor and for recommending that the Board take appropriate action in response to the External Auditor's statement to satisfy itself of the External Auditor's independence;
  - (ii) approve any non-audit services to be provided by the External Auditor to InnVest or any of its subsidiaries prior to the commencement of any work; and
  - (iii) approve any proposal by InnVest to hire employees and former employees of the External Auditor or any former External Auditor.

### 8.3 Internal Controls.

- (a) *Regular Reporting.* The Internal Auditor shall report regularly to the Committee and the Committee shall have direct communication channels with the Internal Auditor to discuss and review specific issues as appropriate.
- (b) *Management Letters.* The Committee shall review and discuss with management of InnVest and the External Auditor the management letters prepared by the External Auditors in conjunction with the annual audit of InnVest.
- (c) *Control Deficiencies.* The Committee shall review and discuss with management of InnVest and the External Auditor major issues as to the adequacy of the internal controls of InnVest and any special audit steps adopted in light of material control deficiencies.
- (d) *Oversight of Internal Controls.* The Committee shall oversee management reporting on the internal controls of InnVest.

8.4 Risk Assessment and Risk Management. The Committee shall discuss the major financial risk exposures of InnVest and the steps management of InnVest has taken to monitor and control such exposures.

## 9. **WHISTLE BLOWING**

9.1 Procedure. The Committee shall put in place procedures for:

- (a) the receipt, retention and treatment of complaints received by InnVest regarding accounting, internal accounting controls or auditing matters; and



- (b) the confidential, anonymous submission by employees of InnVest of concerns regarding questionable accounting or auditing matters.

**10. REPORTING TO THE BOARD**

10.1 Regular Reporting. The Committee shall report to the Board following each meeting of the Committee and at such other times as the Chair may determine to be appropriate.

**11. EVALUATION OF COMMITTEE PERFORMANCE**

11.1 Establish Process. The Committee shall follow the process established by the Board's corporate governance committee for assessing the performance of the Committee.

11.2 Amendments to Mandate.

- (a) *Review by Audit Committee.* The Committee shall recommend to the Board on an annual basis, any amendments it considers desirable to the Mandate.
- (b) *Review by Board.* The Board will review and reassess the adequacy of the Mandate on an annual basis and at such other times as it considers appropriate.

**12. LEGISLATIVE AND REGULATORY CHANGES**

12.1 Compliance. It is the Board's intention that the Mandate shall reflect at all times all legislative and regulatory requirements applicable to the Committee as well as any best practice guidelines recommended by regulators or stock exchanges with whom InnVest has a reporting relationship. Accordingly, this Mandate shall be deemed to have been updated to reflect any amendments to such legislative and regulatory requirements and such best practice guidelines and shall be formally amended at least annually to reflect such amendments.