BUILDING THE BEST

INNVEST REAL ESTATE INVESTMENT TRUST

FIRST QUARTER REPORT 2016

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INTRODUCTION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust owning interests in a portfolio of hotels across Canada. The unaudited interim condensed consolidated financial statements ("Interim Financial Statements") and financial data included in this management's discussion and analysis ("MD&A") reflect the consolidated financial results of InnVest. This MD&A is dated May 10, 2016.

The following MD&A is intended to assist readers in understanding InnVest, its history, business environment, strategies, performance, outlook and risk factors and includes a discussion of the results of operations and financial condition of InnVest for the three months ended March 31, 2016, with a comparison to the results of operations and financial condition for the three months ended March 31, 2015. The MD&A should be read in conjunction with the Interim Financial Statements of InnVest and the notes thereto as at March 31, 2016 and 2015 and for the three months ended March 31, 2016 and 2015.

Monetary data in tabular form and in the text, unless otherwise indicated, are in thousands of Canadian dollars, except for per unit, average daily rate ("ADR"), and revenue per available room ("RevPAR") amounts.

Certain measures in this MD&A do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") and therefore are considered non-IFRS measures. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a discussion of those measures used by InnVest, including a reconciliation to IFRS financial measures.

Additional information relating to InnVest, including its Annual Information Form, can be accessed on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") located at www.sedar.com and on its website at www.innvestreit.com.

OUR BUSINESS

InnVest holds one of Canada's largest hotel portfolios. InnVest's portfolio is well diversified across hotel accommodation categories, brands, geography and customers.

Hotel Real Estate Owner

At March 31, 2016, InnVest's portfolio comprised 107 hotel properties (14,041 rooms) in addition to partial interests in two hotels. The partial interests include a 20% interest in the Fairmont Royal York, Toronto (1,363 rooms), which InnVest acquired in February 2015 and a 33.3% interest in the Courtyard by Marriott in Toronto (575 rooms) acquired in August 2015. InnVest accounts for its partial interests in these two hotels using the equity method. During the first quarter of 2016, InnVest acquired a 100% interest in the Marriott Ottawa Hotel (489 rooms), Ontario and sold one hotel previously classified as held for sale. InnVest's "same-hotel" metrics for the three months ended March 31, 2016 are based on the portfolio of 105 hotels owned over the entire periods presented, excluding acquisitions and divestitures completed during the periods presented.

InnVest's hotel portfolio consists of hotels in three main service level categories, Upscale, Midscale and Limited service. Upscale hotels are typically full-service hotels which generally include a restaurant, pool, lounge facilities and meeting space and offer additional services, often including bell service and room service. These hotels typically generate significant food and beverage revenue in addition to room revenue. Full-service hotels generate higher revenues per room, given higher average daily rates charged and greater ancillary services sold.

Midscale hotels typically consist of full-service and select-service hotels. These hotels typically offer more focused amenities than their full-service counterparts. Although they generally offer some meeting space and food and beverage services, they are limited in size and product offering.

Limited-service hotels typically have rooms-only operations with few additional services and amenities. These hotels are often in the budget or economy group and do not typically generate food and beverage revenue. Limited-service hotels tend to have higher operating margins due to the significant proportion of room revenue.

Revenues earned at our hotels consist of three broad categories: rooms, food and beverage and other revenues. During the three months ended March 31, 2016, approximately 77% of revenues (2015 – 77%) were generated from room revenues, with the remainder being generated from food and beverage sales and other services including meeting space rental, parking, retail operations and internet and telephone use.

The hotels' primary operating costs include wages, food and beverage costs, room supplies, utilities, repairs and maintenance, management fees, brand related fees and sales and marketing expenses. Other property level expenses include property taxes, ground rent for leasehold interests and property insurance all of which are relatively fixed and do not fluctuate in accordance with revenue levels.

InnVest's hotels are operated by hotel management companies which earn base and incentive fees related to the revenues and profitability of each hotel. At March 31, 2016, InnVest's hotels were operated by the following experienced hotel managers.

	Number of Hotels
Westmont Hospitality Canada Limited ("Westmont")	96
Marriott International Inc. (including Delta Hotels) ("Marriott")	5
Fairmont Hotels Inc. ("Fairmont")	4
Hilton Canada Co. ("Hilton")	2
Hyatt Hotels of Canada Inc. ("Hyatt")	1
Larco Hospitality ("Larco")	1
Total	109

InnVest's asset management team works with the hotel management companies to maximize hotel gross operating profit and long-term hotel value by utilizing revenue maximization, cost control and other strategies.

All but one hotel (Les Suites, Ottawa) are operated under widely recognized international hotel brands. While independent hotels may do well in certain strong market locations, we believe most travellers prefer the consistent service, loyalty programs and quality associated with recognized brands.

InnVest's hotels are located across Canada and are typically near major thoroughfares in urban and suburban areas, business centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business, leisure, domestic and foreign travellers, tours, associations and corporate groups.

Franchise Business

InnVest owns 50% of Choice Hotels Canada Inc. ("Choice Canada"), which has franchise agreements with over 300 hotels in Canada. The remaining 50% interest is owned by Choice Hotels International Inc. ("Choice International"), one of the largest hotel franchise companies in the world. In 1993, Choice Canada was granted a 99-year license to franchise all Choice hotel brands in Canada, including Comfort Inn, Quality Suites and Quality Hotels. Choice Canada earns franchise revenue by charging hotel owners a monthly royalty fee based on a percentage of the revenue generated by the licensed properties and by selling franchises. InnVest accounts for its interest in Choice Canada under the equity method.

HOTEL MANAGEMENT DIVERSIFICATION(1)

Three months ended March 31, Hotel Revenue %

	2016	2015
Westmont	55%	57%
Fairmont(2)	14%	18%
Marriott (including Delta)	10%	8%
Hyatt	10%	10%
Hilton	7%	7%
Larco	4%	–

Q1 Hotel GOP %

	2016	2015
Westmont	78%	72%
Fairmont(2)	8%	20%
Marriott (including Delta)	(1%)	4%
Hyatt	11%	8%
Hilton	(2%)	(4%)
Larco	6%	–

HOTEL SERVICE CATEGORY DIVERSIFICATION(1)

Three months ended March 31 Hotel Revenue %

	2016	2015
Limited Service	22%	24%
Midscale	31%	32%
Upscale(3)	47%	44%

Q1 Hotel GOP %

	2016	2015
Limited Service	39%	41%
Midscale	23%	27%
Upscale(3)	38%	32%

HOTEL GEOGRAPHIC DIVERSIFICATION(1)

Three months ended March 31 Hotel Revenue %

	2016	2015
Ontario	40%	37%
Quebec	15%	15%
Atlantic	9%	10%
Western(4)	36%	38%

Q1 Hotel GOP %

	2016	2015
Ontario	56%	42%
Quebec	12%	10%
Atlantic	0%	1%
Western(4)	32%	47%

(1) Based on portfolio as at March 31, 2016. Excludes the 20% interest in the Fairmont Royal York and 33.3% interest in the Courtyard Marriott, Toronto.

(2) Fairmont's three managed hotels are in the province of Alberta. Weakness in the energy sector contributed to Fairmont's year-over-year proportionate decline in contribution.

(3) InnVest has three Upscale hotels in Alberta. Their proportionate impact, as well as renovations ongoing during the period at Hotel Saskatchewan, resulted in a decreased proportion of Hotel GOP contribution from InnVest's Upscale portfolio.

(4) Included in the Western region are hotels in the province of Alberta, which are limited to the cities of Calgary and Edmonton. The contribution from Alberta hotels to revenues for the three months ended March 31, 2016, has declined to 16.7% from 21.2% in 2015 and Hotel GOP has declined to 10.5% for three months ended March 31, 2016 from 25.4% in the prior period. This decrease is primarily as a result of softening demand in Alberta related to lower energy prices as well as continued strong performance (and hence higher contribution) from the Hyatt Regency Vancouver in British Columbia. Additional information on the Western region has been provided under the "Room revenues" and "Hotel GOP" tables.

KEY PERFORMANCE INDICATORS

Key performance indicators play an important role in evaluating the performance of the portfolio and achievement of InnVest's objectives. These key performance indicators are also used by management to measure the REIT's relative performance against its peers in the lodging industry.

- **Revenue per available room (RevPAR):** RevPAR is defined as the product of the average daily rate (ADR) achieved and the average daily occupancy. RevPAR measures room revenues and is a commonly used measure within the hotel industry to evaluate hotel operations.

  RevPAR changes driven by occupancy have different implications on gross operating profit than changes driven by ADR. Higher occupancy will generate incremental revenues such as food and beverage but will also result in higher costs relating to providing such services. ADR increases will not generate incremental revenue for ancillary services; however, they also will not result in meaningful additional costs and, therefore, ADR increases tend to have a greater positive impact on profitability.
- **Hotel gross operating profit (Hotel GOP):** Hotel operations contribute all of InnVest's overall gross operating profit. Defined as hotel revenues less expenses related to hotel operations, Hotel GOP measures property level results before debt service and facilitates comparisons between InnVest and its hotel competitors.
- **Hotel GOP margin:** Defined as Hotel GOP as a percentage of hotel revenues, this key performance indicator measures an individual hotel's profitability efficiency in relation to top-line revenue.
- **Funds from operations (FFO) and adjusted funds from operations (AFFO):** These indicators measure profitability and cash flow after interest costs. AFFO also considers provision for normalized outlays for the annual furniture, fixtures and equipment reserve ("FF&E Reserve").
- **Liquidity:** Management constantly monitors its cash flow, cash balances and availability under credit facilities to ensure sufficient liquidity to fund the operating and capital needs of the business and pay its monthly cash distributions to Unitholders. Liquidity is calculated as the sum of cash balances and availability under the operating line facility and capital expenditure loan facility. Potential liquidity includes restricted

cash balances to be used for future hotel renovation activities, estimated proceeds from the ability to finance unencumbered hotels and the estimated net proceeds from the planned disposition of non-core hotels.

- **RevPAR Index or Penetration:** RevPAR Index measures an individual hotel's performance compared to its local or regional competitive set, as applicable. RevPAR Index accounts for market volatility by measuring a hotel's relative performance against its direct competitive set. RevPAR Index is calculated by dividing an individual hotel's RevPAR by its market RevPAR. The RevPAR Index of a hotel reflects a measurement of the property's ability to obtain its relative share of RevPAR for its specific market. An index above 100% indicates a hotel is achieving more than its relative share of the market RevPAR, while an index below 100% represents a property that is not attaining its relative share of the market RevPAR.

Financial and Operating Performance

	Three Months Ended March 31,	
	2016	2015
Consolidated Performance:		
Number of hotel properties – end of the period	**107**	108
Number of rooms – end of the period	**14,041**	13,860
Occupancy (%)	**54.7%**	55.6%
ADR	**$ 125.96**	$ 122.70
RevPAR	**$ 68.91**	$ 68.27
Revenues	**$ 111,960**	$ 110,065
Gross operating profit (GOP)(1)	**14,873**	15,346
Gross operating margin	**13.3%**	13.9%
Net loss and comprehensive loss	**(29,274)**	(23,233)
Funds from operations (FFO)(1)	**(4,799)**	(3,404)
Adjusted funds from operations (AFFO)(1)	**(7,402)**	(5,172)
Distributions declared	**13,401**	11,932
Capital Expenditure	**$ 17,936**	$ 10,081
Same Hotel Performance:		
Number of hotel properties	**105**	105
Occupancy (%)	**54.5%**	55.7%
ADR	**$ 124.25**	$ 123.07
RevPAR	**$ 67.77**	$ 68.58
Room Revenues	**$ 80,208**	$ 80,477
GOP	**$ 14,321**	$ 15,567
GOP margin	**13.8%**	14.9%
Per diluted unit:		
Net loss and comprehensive loss	**$ (0.218)**	$ (0.196)
FFO	**$ (0.036)**	$ (0.029)
AFFO	**$ (0.055)**	$ (0.044)
Distributions per unit	**$ 0.0999**	$ 0.0999
FFO and AFFO – Weighted average units outstanding – basic	**134,063,906**	118,646,773
FFO and AFFO – Weighted average units outstanding – diluted	**134,428,652**	119,199,754

As at:	**March 31, 2016**	December 31, 2015
Total assets	**1,432,302**	1,314,052
Gross mortgages and other debt	**957,098**	804,626
Convertible debentures	**211,220**	211,220
Weighted average term to maturity(2)	**4.1 years**	4.7 years
Weighted average interest rate(2)	**4.9%**	5.0%
Total debt to gross asset value (leverage ratio)(3)(4)	**62.3%**	58.2%
Total debt to total capitalization(3)(4)	**62.5%**	59.7%
Debt service coverage ratio (times)(3)(4)	**1.9 x**	1.9 x
Interest coverage ratio (times)(3)	**2.5 x**	2.6 x
Floating rate debt as % of total debt	**23.0%**	12.5%
Total potential liquidity(5)	**31,392**	92,308
Twelve-month trailing AFFO payout ratio	**86.6%**	81.2%
Twelve-month trailing AFFO payout ratio (including DRIP)	**71.0%**	68.8%

(1) Refer to Non-IFRS Financial Measures and Additional IFRS Financial Measures.
(2) Mortgages and other debt
(3) Calculated on a trailing 12-month basis.
(4) Total debt consists of mortgage, other debt and convertible debentures on a proportionate consolidated basis.
(5) Total potential liquidity is defined as cash on hand, the availablity under credit facilities and restricted cash.

INNVEST ENTERS INTO DEFINITIVE ARRANGEMENT TO BE ACQUIRED

On May 10, 2016, the REIT and Bluesky Hotels and Resorts Inc., ("Bluesky"), a privately-held Canadian company, announced that they have entered into an arrangement agreement pursuant to which Bluesky will acquire all the issued and outstanding units of InnVest for $7.25 in cash per unit, pursuant to a court-approved plan of arrangement (the "Arrangement"). The Arrangement has received the unanimous approval of the Board of Trustees of InnVest and has the full support of InnVest's management team. Binding agreements have been entered into with unitholders accounting for approximately 29.1% of InnVest's total outstanding units.

InnVest will work with Bluesky in connection with the redemption of all of InnVest's outstanding convertible debentures.

The Arrangement will be subject to a number of customary conditions, including the approval of InnVest unitholders, and Canadian regulatory approvals, under the Investment Canada Act and the Competition Act.

The Arrangement will be considered by unitholders at the upcoming annual meeting to be held on June 28, 2016, and will require the approval of at least 66 2/3% of the votes cast by unitholders at the meeting.

The transaction is expected to close in the third quarter of 2016 following the receipt of all required regulatory approvals.

"This transaction is a winning outcome for all stakeholders. The dedicated work of InnVest to improve its portfolio quality and strengthen its balance sheet has culminated in the crystallization of value that this transaction represents. Bluesky is aligned with InnVest's strategic objectives for the portfolio, and I look forward to continuing to lead InnVest on the path of asset quality driven growth," said Drew Coles, President and Chief Executive Officer of InnVest.

OUR STRATEGY

InnVest is committed to owning quality, accretive assets that deliver income growth with low volatility risk. Our objective is to build a long-term diversified portfolio that can weather all market cycles. In so doing, we create unitholder value through the delivery of high quality income and income growth. We believe one of the keys to success in the lodging industry is to own a well-diversified portfolio made up of highly competitive assets, in each of the markets where we are represented – assets that will outperform in periods of growth and that are better insulated from declines during inevitable economic downturns.

The strategic initiatives for the company fall into three primary areas:

1. Enhanced portfolio composition – acquire, invest and divest as appropriate to drive superior returns on investment
2. Accelerate growth – leverage our internalized asset management expertise to grow our earnings
3. Financial health – continue to strengthen InnVest's balance sheet and financial position

Initiative	2016 Objectives	Accomplishments
1. Enhanced Portfolio Composition: *Acquire and invest in high quality assets and divest as appropriate to drive superior return on investment.*	For 2016, management continues to focus on improving the overall quality and diversification of the portfolio by geography, asset class and brand. A high-quality hotel portfolio is a collection of assets that are primarily located in high-barrier to entry city-centre markets and have diversified sources of income. InnVest is focused on accumulating a portfolio of high-quality hotel real estate which generates stable income with growth potential thereby improving the reliability of our monthly distributions and prospects for continued growth.	• Since December 2014, InnVest has acquired, or participated in, the acquisition of five hotels. All acquisitions have been Upscale hotels located in high quality, highly visible and high barrier to entry markets in central downtown locations.
	Re-cycling of capital through acquisitions and dispositions: Actively manage and improve the portfolio mix by selectively growing the portfolio through acquisitions (including participation in joint ventures) in deep and stable markets with long-term growth potential and at the same time identify non-core properties for disposition.	• Acquired a 100% interest in the Ottawa Marriott Hotel located in downtown Ottawa, on February 1, 2016, which increased the REIT's geographical exposure to the Ottawa market.

Initiative	2016 Objectives	Accomplishments
	Invest: Part of optimizing our portfolio involves investing in our assets to ensure they are competitive within their markets. Our portfolio has received significant investments in the past three years. This plan will continue where we see meaningful opportunities to improve the competitive positioning of hotels. Core hotels are characterized as hotels with investment metrics that are accretive to InnVest's cost of capital, located in stable or growing long-term markets, achieve their fair market share or above and show favourable potential growth prospects through capital investment or repositioning. For 2016, management has updated its business plans and currently expects to invest \$50 to \$60 million for capital improvements (previously \$65 to \$70 million), inclusive of InnVest's interests in its associate and joint ventures. These investments are expected to be funded by asset sales as well as available liquidity. The ultimate extent and timing will depend on management's assessment of return expectations, market considerations and alternative uses for our capital. Typically, the majority of capital improvement implementation takes place in the first and fourth quarters. This schedule helps minimize the impact on business operations during the busier travel months.	Invested \$17.9 million in capital improvements across its owned portfolio during the first quarter of 2016, or \$20.6 million including our participation in partial interests in minority partnerships. Significant capital investment projects underway during the first quarter of 2016 include the following: • Addition of a gold floor (executive product) at the Fairmont Macdonald in Edmonton (anticipated completion in June); • Room renovations at Moncton's Delta Beausejour (anticipated completion in May); and • Room renovations and public spaces at the newly acquired Courtyard Marriott Hotel (anticipated completion in May).
	Divest: Our strategy includes recycling capital from the planned sale of non-core assets. Sale proceeds are used to acquire new assets, invest in capital improvements at existing hotels or to reduce balance sheet liquidity. This is consistent with the focus to improve the overall quality and diversification of the portfolio while enabling funding of new core properties consistent with reducing balance sheet leverage.	• Reviewed the portfolio and expanded 'non-core' portfolio to 26 hotels. The divestiture of these assets are expected to generate gross proceeds of approximately \$225 million (net aggregate proceeds of over \$135 million). • During the first quarter of 2016, one hotel was sold for gross proceeds of \$6.0 million (net proceeds of \$5.7 million). Two additional hotels were actively being marketed at the end of the first quarter of 2016. The remaining 23 hotels are expected to be marketed for sale in an orderly manner starting in the second quarter of 2016.
2. Accelerate Growth: *Leverage our internalized asset management platform to enhance operating results and cash flows.*	2015 was a transition year as we internalized our asset management platform and hired key executive resources across the REIT. We expect to leverage our renovated properties and experienced internalized asset management platform. This program is focused on driving revenues and income growth by shifting business to higher-margin segments and capturing greater market share.	• Excluding the Alberta portfolio, same-hotel GOP during the first quarter improved \$1.2 million or 10.0%.

Initiative	Objective	Year-to-Date Accomplishments
3. Financial: *Further strengthening the balance sheet and financial position.*	Maintain a strong balance sheet with lower leverage and staggered debt maturities in order to minimize InnVest's cost of capital and provide adequate financial flexibility to withstand market cycles.	• Liquidity declined to $28.2 million at March 31, 2016 as compared to $89.4 million at December 31, 2015. This temporary variance is primarily because of the internal funding of the Ottawa Marriott acquisition. Liquidity is expected to be replenished through the planned sale of non-core hotels, planned financing activities and operating cash flows generated.
	• Target leverage reduction below 55% (debt to gross asset value) over the near-term and 50% over the longer term. Leverage may vary through the year based on seasonality and optimal permanent financing.	• Debt to gross asset value leverage of 62.3% at March 31, 2016 from 58.2% at December 31, 2015. This variance is primarily due to the internal funding of the Marriott Ottawa acquisition as mentioned above and the seasonal nature of our portfolio, which typically draws on the operating line during the first quarter. Based on planned financing and hotel disposition activities, management expects its leverage to be below 60% by the end of the year.
	• Capitalize on the availability of debt at currently low interest rates to refinance debt, lowering the weighted average interest rate and extending our average term to maturities.	• Finalized a $54.4 million mortgage at 3.87% interest for a 7-year term on the Marriott Ottawa Hotel. • Reduced the weighted average interest rate on debt to 4.9% at March 31, 2016 from 5.0% at December 31, 2015.
	• Reduce reliance on convertible debentures.	• Series E and F convertible debentures totalling $125 million are currently callable at par. The REIT may call or partially call these debentures when sufficient funds are available from the net proceeds of its sale of non-core hotels and through certain financing activities.
	• Lower distribution payout ratio to improve financial flexibility by increasing profitability	• Trailing payout ratio was 86.6% at March 31, 2016 compared to 81.2% at December 31, 2015 largely owing to the higher number of units outstanding (equity offering in July 2015) in comparison to the low earning period for hotels added to the portfolio. Management expects its payout ratio to normalize on an annual calendar basis.

OUTLOOK

The Canadian economy is fragmented with current weakness in the energy impacted markets (Alberta and Saskatchewan) being more than offset by the improvement in manufacturing and service dominated markets of central Canada as well as strength in British Columbia. Based on the Conference Board of Canada outlook issued in February 2016, economic growth for Canada is forecast to be 1.7% in 2016 and 2.3% in 2017. British Columbia, Manitoba and Ontario are expected to exceed the national average growth rate which would benefit our recent acquisitions in Vancouver, Toronto and Ottawa and our newly renovated full-service hotel in Winnipeg. Conversely, Alberta and Newfoundland are expected to experience limited to negative growth in 2016 due to their exposure to the energy sector, impacting InnVest hotels in these markets.

Operating results for InnVest's portfolio are expected to be positively impacted from high-quality additions and newly renovated hotels within the portfolio, lower gasoline prices, the relative lower Canadian dollar and internalization of the asset management function. The reduction in retail gasoline prices, and the related decline in the Canadian dollar compared to the U.S. dollar are expected to help mitigate the negative impact of low crude oil prices on the overall Canadian economy as more Canadians choose to travel domestically and overnight visits from the U.S. to Canada increase.

Our broad, diversified portfolio of quality assets provides us with appropriate risk mitigation in the face of regional disparities. While annual forecasts have been lowered owing to greater than anticipated declines in energy-impacted markets, the Canadian hotel industry is expected to see year-over-year growth in 2016. Based on reports from CBRE Hotels, Canadian national RevPAR is forecasted to grow 2.0% in 2016. The 2016 RevPAR forecasted growth is being driven by projected ADR growth of 2.7% offset by expected occupancy contraction of 1 percentage point.

We continue to expect our renovated hotels to benefit from completed capital investments, our newly acquired hotels to contribute to our operating results, and our core portfolio to capitalize on the positive industry fundamentals. However, the continuing impact of the energy sector on the overall Canadian economy could constrain our growth over the near term. We do expect the lower Canadian dollar to continue to have a positive impact on our business by creating an incentive for Canadians to travel domestically and attracting more U.S. visitors.

Prudent financial management and an improved balance sheet have helped lower our cost of capital and have better positioned InnVest to take advantage of potential further growth opportunities. We continue to see significant redevelopment and return-on-investment projects within our existing portfolio. We are also evaluating opportunities to further expand, diversify and upgrade our portfolio through select acquisitions and disposition of non-core hotels.

2016 HIGHLIGHTS

Strategic Highlights

- Acquired the Marriott Ottawa hotel and finalized a $54.4 million mortgage on the property at 3.87% for a 7-year term;
- Identified a portfolio of 26 non-core hotels for disposition, the successful sale of which would generate approximately $225 million of gross proceeds (net proceeds of over $135 million). Expected net proceeds would be available to replenish liquidity and position the REIT for future opportunities. One hotel was sold during the first quarter (net proceeds of $5.7 million).

Operating Highlights

- Hotel performance improvement across the majority of the portfolio was offset by weakness in Alberta as well as displacement from ongoing renovation activities in Atlantic Canada during the seasonally slower first quarter. Hotel acquisitions, renovated properties, and the sale of non-core properties over the past year are resulting in a higher quality portfolio of assets;
- RevPAR grew 0.9% for the three months ended March 31, 2016. Same-hotel RevPAR declined 1.2% over the prior period owing to weakness in Alberta. Excluding the Alberta portfolio, same-hotel RevPAR grew 3.1%;
- GOP for the quarter declined modestly to $14.9 million due to the weak Alberta economy and displacement from renovations;
- Same-hotel GOP declined $1.2 million. Excluding the Alberta portfolio, same-hotel GOP improved $1.2 million or 10.0%;
- FFO per unit loss of $0.036 as compared to a loss of $0.029 per unit diluted in the prior period. Per unit amounts in 2016 were impacted by the aforementioned factors as well as the 12.8% increase in the weighted average number of units outstanding resulting from the July 2015 equity offering.

The following discussion summarizes InnVest's performance for the three months ended March 31, 2016 as compared to 2015. The first quarter is historically InnVest's lowest earnings period. Given the seasonality of the portfolio, the first quarter is not reflective of anticipated results for the annual period (refer to *Quarterly Results – Seasonality*).

Revenues

	Three months ended March 31, 2016	2015	Variance %
Hotel	**$ 111,960**	$ 109,887	1.9%
Other real estate properties	**–**	179	nm
Revenues	**$ 111,960**	$ 110,066	1.7%

InnVest's principal business is the ownership of hotel real estate. InnVest divested of its remaining other real estate properties in December 2015. The following discussion analyzes year-over-year performance of the hotel portfolio.

HOTEL REVENUES

	Three months ended March 31, 2016	2015	Variance %
Room	**$ 85,932**	$ 84,607	1.6%
Non-room	**26,028**	25,280	3.0%
Hotel Revenues	**$ 111,960**	$ 109,887	1.9%

Hotel revenues consist primarily of revenue generated from room occupancy. Non-room revenues include food and beverage services and other miscellaneous revenue streams associated with hotel operations such as meeting space rentals, parking, retail operations and telephone use.

Acquisitions contributed to hotel revenues improving $2.1 million, or 1.9%, for the three months ended March 31, 2016, compared to 2015 made up as follows:

- Same-hotel revenues were down $0.6 million, or 0.6% owing primarily to reduced performance across the Alberta portfolio.
  - Excluding Alberta hotels, same-hotel revenues improved 3.7% or $3.0 million notwithstanding the negative impact of the Easter holiday in March as opposed to April in the prior year and renovations underway during the period. Typically, an early Easter at the end of March (as opposed to early April in 2015) disrupts travel patterns which should benefit year-over-year comparisons in April. The negative Easter related impact was partially offset by 2016 being a leap year with the extra day in February. Asset dispositions also contributed to reduced revenues. Since the beginning of 2015, five non-core hotels (829 rooms) have been sold (one in 2016 and four in 2015).
- Acquisitions contributed $6.9 million in revenues (Hotel Saskatchewan in Regina (September 2015) and Marriott Ottawa Hotel (February 2016)); and
- Divestitures reduced revenues by $4.2 million.

ROOM REVENUES

Total room revenues for the three months ended March 31, 2016 improved $1.3 million or 1.6%, owing to acquisitions which offset declines from the factors described above.

Same-hotel room revenues for the three months ended March 31, 2016 declined $0.3 million or 0.3% driven by softness in Alberta which continues to struggle following declines in the energy sector. Excluding hotels in Alberta, same-hotel room revenues improved 4.0%. Hotels divested since the beginning of 2015 contributed to overall room revenue declines of $3.1 million compared to the prior period, while acquisitions contributed $4.7 million in incremental room revenues for the period.

Room revenues for the three months ended March 31, 2016 are net of $2.1 million (2015 – $1.9 million) of costs associated with third-party loyalty programs.

RevPAR for the three months ended March 31, 2016 improved 0.9%. RevPAR in 2016 includes the impact of acquisitions in the past 12 months and revenue displacement caused by renovations across the portfolio in 2015. This was somewhat mitigated by ongoing disruption caused by renovations at select hotels in 2016 (most notably the Delta Beausejour in Moncton and the Fairmont Macdonald in Edmonton).

The first quarter same-hotel RevPAR decline of 1.2% was due to reduced occupancy which offset average daily rate improvement.

Geographical segmentation

The same-hotel decline was primarily attributable to softness in Alberta. Excluding hotels in Alberta, same-hotel RevPAR improved 3.1%. Period-over-period growth was further mitigated by renovation displacement at the Delta Beausejour in Moncton (Atlantic region) and the Fairmont Macdonald in Edmonton (Western region).

Total same-hotel core portfolio analysis for the three months ended March 31, 2016:

Same-Hotel Portfolio	2016 Occupancy	Variance to 2015	2016 ADR	Variance to 2015	2016 RevPAR	Variance to 2015
Ontario	**57.5%**	(0.1 pts)	**$ 114.72**	2.5%	**$ 65.94**	2.3%
Quebec	**57.1%**	0.4 pts	**$ 115.22**	3.3%	**$ 65.83**	4.1%
Atlantic	**40.9%**	(2.8 pts)	**$ 111.34**	3.7%	**$ 45.52**	(2.9%)
Western	**55.5%**	(3.3 pts)	**$ 153.45**	(2.0%)	**$ 85.13**	(7.5%)
Total	**54.5%**	(1.2 pts)	**$ 124.25**	1.0%	**$ 67.77**	(1.2%)

Note: Gross hotel revenues on a same-hotel basis (105 hotels), excluding hotels which were sold or acquired during the periods presented

- Experienced growth across all regions of Ontario driven by strength in the metropolitan markets of Toronto.
- Quebec region saw significant year-over-year improvements primarily due to strength in Quebec City which benefited from strong transient demand during the quarter.
- Performance across the Atlantic region was impacted by renovations at the Delta Beausejour which was somewhat offset by improvement following completed renovations at the Delta Prince Edward Island. Excluding the Delta Beausejour, room revenues in the Atlantic region would have improved 6.2%.
- The Western region same-hotel portfolio revenue decreased compared to prior year. Strong performance at the Hyatt Regency Vancouver and year-over-year improvement following renovations at the Delta Winnipeg was offset by softening demand due to the declining energy sector in Alberta. The following table summarizes the performance of the Western region by province.

	Number of Hotels	Number of Rooms	Room Revenue: Three Months Ended March 31, 2016: 2016 Room Revenue $	Variance to Prior Year Comparative Period $	Variance to Prior Year Comparative Period %
Core Portfolio[1] :					
Ontario	33	3,553	**$ 21,886**	$ 534	2.5%
Quebec	17	1,985	**12,104**	529	4.6%
Atlantic	14	1,530	**6,169**	(421)	(6.4%)
Western	16	3,111	**24,618**	(1,392)	(5.4%)
Total Core Portfolio	80	10,179	**$ 64,777**	$ (750)	(1.1%)
Non-Core Portfolio:					
Ontario	15	2,067	**$ 11,122**	$ 463	4.3%
Quebec	5	503	**2,512**	178	7.6%
Atlantic	4	376	**1,467**	223	17.9%
Western	1	203	**328**	(385)	(54.0%)
Total Non-Core Portfolio[2]	25	3,149	**$ 15,429**	$ 479	3.2%
Same-Hotel Portfolio	105	13,328	**$ 80,206**	$ (271)	(0.3%)
Acquisitions	2	713	**4,668**	4,668	nm
Total Current Portfolio	107	14,041	**$ 84,874**	$ 4,397	5.5%
2016 dispositions	1	178	**1,058**	(62)	nm
2015 dispositions	4	651	**–**	(3,010)	nm
Total Portfolio		14,870	**$ 85,932**	$ 1,325	1.6%

"nm" – not meaningful

(1) Core Portfolio hotels are defined as hotels with investment metrics that are accretive to InnVest's cost of capital, located in stable or growing long-term markets, achieve their fair market share or above and show favourable potential growth prospects through capital investment or repositioning. As part of its regular evaluation of the portfolio, during the first quarter of 2016, additional hotels were identified which do not meet a long-term hold criteria. As a result, 26 properties were identified as 'non-core' and are anticipated to be marketed for sale in the coming year. One hotel was sold during the first quarter.

(2) The growth in room revenue for the non-core portfolio includes performance in certain Toronto area hotels and strength at the Hilton in Saint John due to strong corporate demand during the quarter.

WESTERN REGION BY PROVINCE	Number of Hotels	Number of Rooms	Room Revenue: Three Months Ended March 31, 2016: 2016 Room Revenue $	Variance to Prior Year Comparative Period $	Variance to Prior Year Comparative Period %
Alberta	6	1,397	**$ 11,195**	$ (2,532)	(18.4%)
Manitoba	4	634	**4,177**	124	3.1%
British Columbia	1	644	**7,044**	1,035	17.2%
Saskatchewan	5	436	**2,202**	(19)	(0.9%)
West – Core	16	3,111	**$ 24,618**	$ (1,392)	(5.4%)
Non-Core – Alberta	1	203	**328**	(385)	(54.0%)
Acquisition – Saskatchewan	1	224	**1,160**	1,160	nm
Total Western region	18	3,538	**$ 26,106**	$ (617)	(2.3%)

"nm" – not meaningful

Market segmentation

Each of InnVest's market segments was negatively impacted by hotels in Alberta.

Three of InnVest's ten same-hotel Upscale hotels are in Alberta which disproportionately impacted performance for this segment during the first quarter. Excluding Alberta, the Upscale segment would have seen same-hotel RevPAR growth of 9.0%. In comparison, the Midscale segment includes one of 30 hotels in Alberta. The Limited Service portfolio includes three of 65 hotels in Alberta. This segment also experienced declines across commodity-based markets in northern Ontario and northern Quebec.

Same-Hotel Portfolio	2016 Occupancy	Variance to 2015	2016 ADR	Variance to 2015	2016 RevPAR	Variance to 2015
Limited Service	**49.6%**	(2.2 pts)	**$ 98.78**	0.9%	**$ 49.00**	(3.3%)
Midscale	**59.1%**	(0.5 pts)	**$ 120.59**	2.7%	**$ 71.31**	2.0%
Upscale	**56.3%**	(0.6 pts)	**$ 164.00**	(1.4%)	**$ 92.30**	(2.4%)
Total	**54.5%**	(1.2 pts)	**$ 124.25**	1.0%	**$ 67.77**	(1.2%)

Note: Gross hotel revenues on a same-hotel basis (105 hotels), excluding hotels which were sold or acquired during the periods presented

Room Revenue

	Number of Hotels	Number of Rooms	Three Months Ended March 31, 2016 Room Revenue $		Variance to Prior Year Comparative Period $	%
Core Portfolio[1] :						
Limited Service	53	4,297	**$ 20,412**	$	(240)	(1.2%)
Midscale	18	2,606	**17,181**		258	1.5%
Upscale	9	3,276	**27,184**		(768)	(2.7%)
Total Core Portfolio	80	10,179	**$ 64,777**	$	(750)	(1.1%)
Non-Core Portfolio:						
Limited Service	12	1,085	**$ 3,159**	$	(315)	(9.1%)
Midscale	12	1,867	**11,231**		549	5.1%
Upscale	1	197	**1,039**		245	30.9%
Total Non-Core Portfolio	25	3,149	**$ 15,429**	$	479	3.2%
Same-Hotel Portfolio	105	13,328	**$ 80,206**	$	(271)	(0.3%)
Acquisitions	2	713	**4,668**		4,668	nm
Total Current Portfolio	107	14,041	**$ 84,874**	$	4,397	5.5%
2016 dispositions	1	178	**1,058**		(62)	nm
2015 dispositions	4	651	**-**		(3,010)	nm
Total Portfolio		14,870	**$ 85,932**	$	1,325	1.6%

"nm" - not meaningful

Non-Room Revenues

The sale of food and beverage represented over 80% of the non-room revenue earned in the three months ended March 31, 2016 and 2015. Non-room revenues for the three months ended March 31, 2016 improved $0.7 million or 3.0%. Acquisitions contributed to improved non-room revenues of $2.3 million. The hotels divested since 2015 partially offset this contribution. Same-hotel non-room revenues for the three months ended March 31, 2016 was down $0.4 million or 1.5% owing to reduced banqueting demand from our three full service hotels in Alberta as well as displacement caused by renovations at the Delta Beausejour.

Hotel and Other Real Estate Properties Expense

	Three months ended March 31, 2016	2015	Variance %
Hotel	**$ 97,087**	$ 94,385	2.9%
Other real estate properties	**–**	335	nm
Hotel and other real estate properties	**$ 97,087**	$ 94,720	2.5%

InnVest, through its asset management function, continually works with its hotel operations managers to focus on managing all costs to maximize overall profitability while achieving desired service levels offered to guests. Management's focus is on limiting incremental costs associated with improved occupancy and/or adjusting costs in periods of declining occupancy in order to enable margin expansion. Many property level expenses, including property taxes, rent and insurance are relatively fixed and do not change in accordance with overall demand levels.

Notwithstanding reduced same-hotel revenues, same-hotel expenses were up $0.6 million or 0.7% for the three months ended March 31, 2016 as compared to the prior period reflecting inflationary increases on a largely fixed cost structure during low occupancy periods. The elimination of costs associated with assets sold was offset by incremental hotel expenses associated with acquisitions. Overall expenses for the year increased $2.4 million or 2.5% compared to the prior period.

Gross operating profit ("GOP")

	Three months ended March 31, 2016	2015	Variance %
Hotel	**$ 14,873**	$ 15,502	(4.1%)
Other real estate properties	**–**	(156)	nm
Hotel and other real estate properties	**$ 14,873**	$ 15,346	(3.1%)

Overall GOP declined $0.5 million or 3.1% compared to the prior period.

HOTEL GOP

The hotel industry has a high level of fixed costs with incremental revenue gains requiring marginal increases in costs. As a result, revenue growth achieved beyond inflation can contribute to substantial operating leverage for the portfolio. Notably, while occupancy growth contributes to improved profitability, higher margins are achieved through increases in ADR. Conversely, in periods of marginal (below inflation) or declining revenues, such as experienced across our same-hotel portfolio during the first quarter of 2016, decreases to expenses are limited, resulting in reduced profitability. This highlights the positive operating leverage inherent in the hotel business when revenue increases outpace inflationary increases in costs and there is a relatively low level of variable costs associated with increased business volumes and higher room rates achieved.

Hotel GOP declined $0.6 million, or 4.1% for the three months ended March 31, 2016, compared to 2015 made up as follows:

- Same-hotel GOP was down $1.2 million or 8.0% owing primarily to reduced performance across the Alberta portfolio.
  - Excluding the Alberta portfolio, same-hotel GOP improved $1.2 million or 10.0%;
- Acquisitions contributed $0.4 million in Hotel GOP); and
- Divestitures reduced Hotel GOP by $0.2 million.

Hotel GOP Margins

Hotel GOP margins declined 60 basis points to 13.3% compared to the prior period owing to the negative operating leverage in a declining same-hotel revenue environment. The first quarter is InnVest's lowest earnings period and is not reflective of expectations for the full year. Margins from recent acquisitions were impacted by operating seasonality and renovations taking place during the quarter. Margins in the Quebec region were lower during the first quarter owing to the timing of expenses.

The Hotel GOP growth of 28.0% for the non-core portfolio is a result of year-over-year improvement in certain Toronto area hotels and strength at the Hilton in Saint John (strong corporate demand).

Hotel GOP

			Three Months Ended March 31, 2016		
	Number of Hotels	Number of Rooms	**2016 Hotel GOP $**	Variance to Prior Year Comparative Period $	%
Core Portfolio:					
Ontario	33	3,553	**$ 5,394**	$ 431	8.7%
Quebec	17	1,985	**1,398**	(22)	(1.5%)
Atlantic	14	1,530	**128**	(346)	(73.0%)
Western	16	3,111	**5,354**	(1,758)	(24.7%)
Total Core Portfolio	80	10,179	**$ 12,274**	$ (1,695)	(12.1%)
Non-Core Portfolio:					
Ontario	15	2,067	**$ 1,993**	$ 400	25.1%
Quebec	5	503	**330**	190	135.7%
Atlantic	4	376	**(148)**	127	(46.2%)
Western	1	203	**(130)**	(270)	(192.9%)
Total Non-Core Portfolio	25	3,149	**$ 2,045**	$ 447	28.0%
Same-Hotel Portfolio	105	13,328	**$ 14,319**	$ (1,248)	(8.0%)
Acquisitions	2	713	**446**	446	nm
Total Current Portfolio	107	14,041	**$ 14,765**	$ (802)	(5.2%)
2016 dispositions	1	178	**(18)**	(129)	nm
2015 dispositions	4	651	**126**	302	nm
			$ 14,873	$ (629)	(4.1%)

"nm" – not meaningful

			Hotel GOP		
			Three Months Ended March 31, 2016		
	Number of Hotels	Number of Rooms	**2016 Hotel GOP**	Variance to Prior Year Comparative Period $	%
Core Portfolio:					
Limited Service	53	4,297	**$ 5,709**	$ (290)	(4.8%)
Midscale	18	2,606	**3,451**	(6)	(0.2%)
Upscale	9	3,276	**3,114**	(1,399)	(31.0%)
Total Core Portfolio	80	10,179	**$ 12,274**	$ (1,695)	(12.1%)
Non-Core Portfolio:					
Limited Service	12	1,085	**$ 73**	$ (246)	(77.1%)
Midscale	12	1,867	**2,089**	568	37.3%
Upscale	1	197	**(117)**	125	(51.7%)
Total Non-Core Portfolio	25	3,149	**$ 2,045**	$ 447	28.0%
Same-Hotel Portfolio	105	13,328	**$ 14,319**	$ (1,248)	(8.0%)
Acquisitions	2	713	**446**	446	nm
Total Current Portfolio	107	14,041	**$ 14,765**	$ (802)	(5.2%)
2016 dispositions	1	178	**(18)**	(129)	nm
2015 dispositions	4	651	**126**	302	nm
			$ 14,873	$ (629)	(4.1%)

"nm" – not meaningful

The following table summarizes the performance of the Western region by province. The year-to-date 2016 performance of the hotels in Alberta and Saskatchewan was impacted by weakness in the energy sector as well as renovations underway at the Hotel Saskatchewan during the period.

			Hotel GOP		
			Three Months Ended March 31, 2016		
WESTERN REGION BY PROVINCE	Number of Hotels	Number of Rooms	**2016 Hotel GOP $**	Variance to Prior Year Comparative Period $	%
Alberta	6	1,397	**$ 1,677**	$ (2,141)	(56.1%)
Manitoba	4	634	**1,286**	63	5.2%
British Columbia	1	644	**1,724**	428	33.0%
Saskatchewan	5	436	**667**	(108)	(13.9%)
West same-hotel basis	16	3,111	**$ 5,354**	$ (1,758)	(24.7%)
Non-Core – Alberta	1	203	**(130)**	(270)	nm
Acquisition – Saskatchewan	1	224	**(492)**	(492)	nm
Total Western region	18	3,538	**$ 4,732**	$ (2,520)	(34.7%)

Other Expenses and (Income), Net

	Three months ended March 31,		
	2016	2015	Variance %
Corporate and administrative	**$ 3,872**	$ 2,981	29.9%
Interest expense			
Mortgages and other debt	**12,854**	12,746	0.8%
Convertible debentures	**3,965**	4,353	(8.9%)
Share of income of joint venture(1)	**(749)**	(765)	(2.1%)
Share of loss from investment in associate(2)	**343**	347	(1.2%)
Other expense and (income), net	**2,151**	(720)	nm
Reversal of writedown	**(210)**	-	nm
Depreciation and amortization	**22,410**	20,809	7.7%
Unrealized gain on liabilities presented at fair value	**(489)**	(1,172)	nm
Other expenses	**$ 44,147**	$ 38,579	14.4%

(1) Includes income from the REIT's 50% interest in Choice Hotels Canada Inc. and 33.3% interest in the Courtyard Marriott in Toronto.
(2) Includes the REIT's 20% interest in the Fairmont Royal York.
"nm" – not meaningful

Corporate and Administrative

Corporate and administrative costs reflect the full period inclusion of the REIT's internalized corporate, finance and asset management platform which was put in place throughout 2015. During the three months ended March 31, 2016, the REIT's Board formed a special committee to consider matters relating to the transfer of ownership held by a large unitholder, including the appropriateness of renewing the unitholder's rights plan. Approximately $0.6 million of non-recurring costs related to these activities were incurred in the first quarter of 2016 including trustee fees and legal costs. In addition, incremental costs were incurred associated with remediation efforts related to internal controls.

Interest Expense

InnVest has benefited from a reduction in its weighted average cost of debt since the beginning of 2015. Interest expenses in 2016 include new mortgages and bridge financing associated with acquisitions (Hotel Saskatchewan in September 2015 and Marriott Ottawa Hotel in February 2016). In addition, costs include approximately $0.6 million related to the early retirement of debt associated with planned asset divestitures. Convertible debenture interest savings reflect the early redemption of the Series D Debentures on March 3, 2015 (refer to *Unit Information*).

Share of Income of Joint Ventures

Joint venture income reflects InnVest's 50% interest in the net earnings of Choice Canada and its 33.3% interest in the Courtyard Marriott in Toronto. InnVest's joint venture income generated $0.8 million during the three months ended March 31, 2016 (2015 – $0.8 million). Income from Choice Canada offset modest losses from the Courtyard Marriott which was under significant renovations during the first quarter of 2016.

Share of Loss from Investment in Associate

During the three months ended March 31, 2016, InnVest recognized a non-cash loss of $0.3 million (2015 – $0.3 million) from its 20% proportionate share of net earnings (after interest and depreciation) from its ownership interest in the Royal York Hotel. InnVest acquired its interest in this hotel in February 2015.

Other Expenses and (Income), Net

Other expenses of $2.2 million for the first quarter of 2016 primarily reflect acquisition costs for the Marriott Ottawa including $1.7 million in land transfer taxes.

Reversal of Writedown

The three months ended March 31, 2016, include a $0.2 million reversal of previous impairment following the sale of one hotel.

Depreciation and A mortization

Higher depreciation and amortization during the three months ended March 31, 2016 reflects the inclusion of acquisitions completed over the last year as well as renovation activity over the period.

Unrealized Gain on Liabilities Presented at Fair Value

InnVest accounts for various unit-based instruments as financial liabilities. These instruments are re-measured at their fair value at each reporting period resulting in non-cash gains or losses based on the change in InnVest's unit price over the periods presented and their impact on convertible debenture holders' conversion option feature. During the three months ended March 31, 2016, InnVest recognized a fair value gain of $0.5 million (2015 – $1.2 million).

Income Taxes

InnVest did not generate income taxes during the three months ended March 31, 2016 and 2015.

Net Loss and Comprehensive Loss

For the three months ended March 31, 2016, InnVest incurred a net loss of $29.3 million ($0.218 loss per unit diluted) compared to a net loss of $23.2 million in the prior year ($0.196 per unit diluted). Refer to FFO for a comparison of profitability excluding non-recurring costs and non-cash items. Per unit amounts in 2016 were impacted by the 12.8% increase in the weighted average number of units outstanding related to the July 2015 equity offering.

Funds from Operations (FFO)

For the three months ended March 31, 2016, InnVest generated an FFO loss of $4.8 million ($0.036 loss per unit diluted) compared to an FFO loss of $3.4 million ($0.029 loss per unit diluted) for the same period in 2015. The $1.4 million increased loss primarily reflects lower GOP and higher corporate and administrative costs incurred. Per unit amounts in 2016 were impacted by the 12.8% increase in the weighted average number of units outstanding related to the July 2015 equity offering. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a reconciliation of net loss and comprehensive loss to FFO.

Adjusted Funds from Operations (AFFO)

For the three months ended March 31, 2016, InnVest generated an AFFO loss of $7.4 million ($0.055 loss per unit fully diluted) compared to an AFFO loss of $5.2 million for the same period in 2015 ($0.044 per unit fully diluted). The $2.2 million increased loss reflects the lower FFO generated and higher FF&E Reserve following acquisitions. Per unit amounts in 2016 were impacted by the 12.8% increase in the weighted average number of units outstanding related to the July 2015 equity offering. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* for a reconciliation of FFO to AFFO.

Distributions declared during the first quarter of 2016 totalled $13.4 million, or $0.0999 per unit (2015 – $11.9 million or $0.0999 per unit). The increase in total distributions paid over the prior year reflects the incremental increase in the number of units outstanding following the issuance of units in July 2015. Refer to *Unit Information*.

Proportionate Share of Investment in Joint Ventures and Associates

As at March 31, 2016, the REIT has a 20% ownership interest in The Fairmont Royal York, a 33.3% interest in the Courtyard by Marriott, Toronto and a 50% interest in Choice Hotels Canada, Inc. ("CHC"). InnVest accounts for its partial interests in these two hotels and CHC, using the equity method. The following is a reconciliation of the REIT's interim condensed consolidated balance sheet as presented on a proportionate share basis as at March 31, 2016:

	Amounts per consolidated financial statements	Proportionate share of Investment in joint ventures and partnerships	Total
ASSETS			
Current assets			
Cash	$ 23,384	$ 4,904	$ 28,288
Accounts receivable	25,306	4,116	29,422
Prepaid expenses and other assets	10,126	176	10,302
Assets held for sale	18,681	–	18,681
	77,497	9,196	86,693
Non-current assets			
Restricted cash	3,215	–	3,215
Investment in joint ventures	38,011	(38,011)	–
Investment in associate	19,640	(19,640)	–
Hotel properties	1,281,996	83,370	1,365,366
Prepaid expenses and other assets	2,423	–	2,423
Intangible assets	9,520	155	9,675
Total assets	$ 1,432,302	$ 35,070	$ 1,467,372
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 67,810	$ 8,559	76,369
Distributions payable	4,471	–	4,471
Long-term debt	103,611	–	103,611
Other long-term obligations	220	–	220
Liabilities related to assets held for sale	491	–	491
	176,603	8,559	185,162
Non-current liabilities			
Long-term debt	841,686	23,940	865,626
Convertible debentures	203,421	–	203,421
Provisions	12,352	–	12,352
Other long-term obligations	3,964	2,571	6,535
Other liabilities	5,424	–	5,424
	1,243,450	35,070	1,278,520
UNITHOLDERS' EQUITY	188,852	–	188,852
	$ 1,482,302	$ 35,070	$ 1,467,372

The following is a reconciliation of the REIT's interim condensed consolidated statement of net loss as presented on a proportionate share basis for the three months ended March 31, 2016:

	Amounts per consolidated financial statements	Proportionate share of Investment in joint ventures and partnerships	Total
Hotel revenues	$ 111,960	$ 7,593	$ 119,553
Franchise revenues	–	2,917	2,917
Total revenues	$ 111,960	$ 10,510	$ 122,470
Hotel properties			
Operating expenses	84,961	7,372	92,333
Property taxes, rent and insurance	9,179	–	9,179
Management fees	2,947	–	2,947
Franchise expenses	–	1,938	1,938
	97,087	9,310	106,397
Gross operating profit	14,873	1,200	16,073
Other expenses			
Corporate and administrative	3,872	–	3,872
Interest expense			
Mortgages and other debt	12,854	230	13,084
Convertible debentures	3,965	–	3,965
Joint venture income	(749)	749	–
Loss from investment in associate	343	(343)	–
Other expense and (income), net	2,151	14	2,165
Reversal of writedown of hotel properties	(210)	–	(210)
Depreciation and amortization	22,410	550	22,960
Unrealized gain on liabilities presented at fair value	(489)	–	(489)
Net loss and total comprehensive loss	$ (29,274)	$ –	$ (29,274)

The following is selected operating statistics presented on a proportionate share basis for the three months ended March 31, 2016:

	Amounts per consolidated results	Proportionate share of Investments in joint ventures and associate	Total
Occupancy (%)	54.7%	54.8%	54.7%
ADR	$ 125.96	$ 198.10	$ 128.27
RevPAR	$ 68.91	$ 108.50	$ 70.17

CHANGES IN FINANCIAL CONDITION

Operating Activities

For the three months ended March 31, 2016, cash utilized by operating activities generated modest cash flow, improving $7.7 million as compared to the same period in 2015 reflecting working capital improvement.

Financing Activities

Financing activities in 2016 included amounts drawn on InnVest's operating line and bridge loan to fund the acquisition of the Ottawa Marriott hotel. InnVest finalized new mortgage financing of $54.4 million relating to the acquisition at the end of the quarter and applied $42.0 million to partially repay the bridge loan and amounts drawn on the operating line. Financing activities for the prior year included the redemption and cancellation of Series D debentures.

Year-to-date cash distributions to unitholders in 2016 totalled $11.4 million, relatively unchanged from the prior year. Notwithstanding the higher number of units outstanding, cash distributions were relatively unchanged owing to the higher DRIP participation for the three months ended March 31, 2016 as compared to the prior period.

Investing Activities

Investing activities include $111.9 million related to the acquisition of the Marriott Ottawa hotel ($115.0 purchase price less $0.2 million credit from vendor, working capital adjustments and allocation to contingent consideration). The prior year included $18.8 million for the acquisition of a 20% interest in the Fairmont Royal York Hotel.

To drive continuing strong operating performance and maintain the competitiveness of our hotels, InnVest allocates 4% to 5% of hotel revenues to an "FF&E Reserve". This FF&E reserve is a source of funding to maintain the physical quality and competitiveness of the portfolio. Year-to-date capital expenditures in 2016 totalled $17.9 million (2015 – $10.1 million) compared to the FF&E Reserve of $5.0 million (2015 – $4.6 million). Incremental capital above the FF&E Reserve was funded through cash on hand and operating line availability.

Investing activities reflect distributions of $1.0 million received from InnVest's investment in Choice Canada (2015 – $0.9 million). Investing activities also include net proceeds of $5.5 million (gross proceeds of $6.0 million less working capital) from the sale of one property in 2016. Two properties were sold during the first quarter of 2015 for gross proceeds of $7.0 million.

QUARTERLY RESULTS

Seasonality

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue earned from hotel operations fluctuates throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest because leisure travel tends to be lower due to weather related issues. The results from operations vary materially from quarter to quarter given the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, and depreciation and amortization are virtually fixed. InnVest's objective is to complete as much renovation activity as reasonably possible in the first and fourth quarter when business displacement is minimized.

The quarterly results highlighted below have been impacted by the acquisitions of hotels and the sale of non-core assets completed over the past two years and consequently, are not reflective of the typical seasonality of the portfolio on a same-hotel basis.

Quarter Ended (Unaudited)

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Revenues	**$ 111,960**	$ 130,177	$ 165,565	$ 147,580	$ 110,066	$ 126,439	$ 148,434	$ 146,231
Gross operating profit	**$ 14,873**	27,200	56,654	46,146	15,346	27,766	48,398	39,004
Net (loss) income	**(29,274)**	(14,293)	14,301	9,684	(23,233)	(1,182)	16,508	4,818
FFO	**(4,799)**	10,938	39,378	29,433	(3,404)	10,359	31,720	20,765
AFFO	**(7,402)**	6,957	35,786	24,954	(5,172)	8,205	27,319	16,450
Distributions declared	**13,401**	13,339	13,261	12,219	11,932	10,910	9,481	9,453
Per unit – diluted:								
Net (loss) income	**$ (0.218)**	$ (0.107)	$ 0.109	$ 0.079	$ (0.196)	$ (0.011)	$ 0.161	$ 0.051
FFO	**(0.036)**	0.082	0.275	0.224	(0.029)	0.100	0.278	0.190
AFFO	**(0.055)**	0.052	0.247	0.189	(0.044)	0.079	0.239	0.151
Trust units outstanding	**134,222,903**	133,768,240	133,049,525	122,466,130	122,203,362	116,280,294	94,992,322	94,713,251
Weighted average trust units outstanding	**134,063,906**	133,403,868	130,954,208	122,265,716	118,646,773	103,154,099	94,863,069	94,433,893
Total assets	**$ 1,432,302**	$ 1,314,052	$ 1,333,835	$ 1,287,657	$ 1,284,327	$1,329,285	$1,186,098	$ 1,227,354
Total long-term debt	**945,297**	783,379	794,177	793,260	790,446	782,951	709,493	714,154

ASSET PROFILE

InnVest's total asset carrying value was $1,432.3 million at March 31, 2016 compared to $1,314.1 million at December 31, 2015. The following table summarizes some of the key balance sheet movements compared to 2015 year end results.

	March 31, 2016	December 31, 2015	
Current assets			
Cash	**$ 23,384**	$ 9,269	Increase reflects proceeds received from asset divestiture as well as excess cash drawn from financing activities to fund acquisitions, capital investments and working capital needs.
Accounts receivable	**25,306**	25,268	
Prepaid expenses and other assets	**10,126**	11,363	Year end balance included $5.8 million deposit on the acquisition of the Marriott Ottawa hotel. Somewhat offset by the hotel's addition durign the quarter.
Assets held for sale	**18,681**	15,984	Two hotels classified as held for sale at the end of March 31, 2016. One hotel was sold during the first quarter of 2016.
	77,497	61,884	
Non-current assets			
Restricted cash	**3,215**	2,881	
Investment in joint venture	**38,011**	36,453	
Investment in associate	**19,640**	19,983	
Hotel properties	**1,281,996**	1,181,422	See description below.
Prepaid expenses and other assets	**2,423**	1,500	Increase reflect higher balance following the acquisition of the Ottawa Marriott.
Intangible and other assets	**9,520**	9,929	
Total assets	**$ 1,432,302**	$ 1,314,052	

Hotel properties (including assets held for sale) comprise over 90% of InnVest's total assets. Activity during 2016 included the acquisition of the Ottawa Marriott hotel for $112.2 million and capital additions of $17.9 million. These additions were offset by depreciation of $21.9 million as well as the disposition of one hotel year-to-date in 2016.

LIQUIDITY AND CAPITAL RESOURCES

InnVest has several sources of liquidity including the following:

CASH GENERATED FROM HOTEL OPERATIONS

InnVest's operations are seasonal with the third quarter being the highest earnings period and the first quarter typically being the weakest earnings period given the different levels of business and leisure travel during these quarters. Over the annual period, InnVest anticipates generating GOP sufficient to fund distributions to unitholders, capital expenditures, corporate and administrative expenses and debt service requirements.

CREDIT FACILITIES

InnVest has various credit facilities including a revolving operating line of up to $100.0 million secured by 24 hotels. During the quarter, the operating line was temporarily increased by $30.0 million (with a maturity date of October 27, 2016) to help facilitate the acquisition of the Ottawa Marriott Hotel, continue planned capital expenditures and to bridge the sale of non-core hotels. The operating line can be used to finance temporary deficits in cash resulting from business seasonality and working capital fluctuations, to issue letters of credit, to provide short-term financing in the event of the acquisition of a new hotel, to provide additional short-term liquidity pending the sale of assets and/or permanent financing, and to fund capital expenditures. At March 31, 2016, the cash amount advanced was $124.7 million, with a further amount allocated for outstanding letters of credit of $4.2 million leaving net availability of $1.1 million.

As part of certain mortgage agreements, InnVest had access to a capital expenditure loan facility for up to $20.0 million to fund 65% of capital expenditures incurred at certain of its hotels. At March 31, 2016, InnVest had remaining capacity on this facility of $3.7 million (December 31, 2015 – $3.7 million).

ISSUING ADDITIONAL DEBT

InnVest has the ability to raise funds by mortgaging its properties or by issuing either unsecured debt or unsecured convertible debt securities. InnVest typically uses long-term debt financing to refinance existing debt or to finance an acquisition. The ability to obtain debt financing on reasonable terms is ultimately dependent on market conditions and the lender's determination of InnVest's creditworthiness and property specific cash flow and collateral. At March 31, 2016, substantially all of InnVest's hotel assets have been pledged as security under debt agreements, however financing capacity is available on certain hotel assets or pools of hotel assets, encumbered under these debt agreements.

ISSUING ADDITIONAL EQUITY SECURITIES

InnVest's listing on the Toronto Stock Exchange gives it the ability to access, subject to market conditions, additional equity through the issuance of units or equity-linked instruments. On July 2, 2015, InnVest filed a base shelf prospectus, which expires August 2017, during which time InnVest may offer trust units, debt securities, warrants and subscription receipts, or any combination thereof, having an aggregate offering proceeds of up to $500 million. At March 31, 2016, InnVest has issued $48.3 million under its base shelf prospectus leaving remaining eligibility of $451.7 million.

At March 31, 2016, InnVest had total current liquidity of $28.2 million (total potential liquidity of $31.4 million). Total potential liquidity of $31.4 million is before the impact of possible divestiture and financing activities which, if successful, could generate aggregate liquidity of over $100 million. Consequently, to the extent these activities are successful, liquidity would be greatly enhanced.

		March 31, 2016
Cash	**$**	**23,384**
Revolving credit facility availability		**1,072**
Capital expenditure loan facility availability		**3,721**
Total current liquidity	**$**	**28,177**
Additional liquidity contingent on capital expenditures incurred:		
Restricted cash		**3,215**
Total potential liquidity	**$**	**31,392**

InnVest's credit and liquidity facilities, cash on hand and expected cash flow from operations, and the potential to sell assets or access debt and equity markets are expected to allow InnVest to meet all of its financial commitments. There can be no assurance that capital market conditions will enable possible debt or equity issuance, if or when desirable, or on terms and at costs advantageous to InnVest. Similarly, there can be no assurance that expected financing and divestiture activities will be completed as planned. Refer to *Risks and Uncertainties*. If necessary, near-term disruptions to operating earnings and cash flow could be addressed through reductions in discretionary capital allocation decisions such as capital investments above the FF&E Reserve and/or distributions.

Cash on Hand

At March 31, 2016, InnVest had cash totalling $26.6 million, of which $3.2 million is restricted to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

Capital expenditures during the three months ended March 31, 2016 totalled $17.9 million (2015 – $10.1 million) compared to the allocated FF&E Reserve of $5.0 million (2015 – $4.6 million). Incremental capital expenditures above the allocated FF&E Reserve were funded through cash generated from asset sales, cash on hand and operating line availability.

Debt Strategy

InnVest's debt strategy involves the use of various forms of debt including conventional property-specific secured mortgages, unsecured convertible debentures, secured floating interest rate bank financing and subordinated term loans. Management intends to continue to reduce its reliance on dilutive unsecured convertible debentures. Management's objectives are to maximize its liquidity sources and flexibility while maintaining access to low cost debt and a staggered debt maturity schedule to manage interest rate and refinancing risk.

OPERATING LINE

InnVest's operations are seasonal (refer to *Quarterly Results*). InnVest's operating line is used to fund seasonal fluctuations in cash flows, acquisitions and for general corporate purposes.

InnVest has one revolving credit facility with two major Canadian financial institutions, which as of March 31, 2016 had a borrowing capacity of $130.0 million ($1.1 million, net of amount drawn of $124.7 million and letters of credit outstanding) and is secured by 24 properties. Interest rates are based on either (i) the Canadian prime rate plus 1.75%, or (ii) the Canadian Bankers' Acceptance rate plus 2.75%. The two-year facility expires in June 2017.

Letters of credit totalling $4.2 million were issued and are outstanding pursuant to the operating line (December 31, 2015 – $8.6 million).

MORTGAGES, SUBORDINATED TERM LOANS, OPERATING LINE AND CONVERTIBLE DEBENTURES

InnVest attempts to stagger the maturity of fixed-term debt to minimize interest and financing risks.

	March 31, 2016	December 31, 2015
Mortgages, subordinated term loans and operating line		
Mortgages and subordinated term loans payable	**$ 957,098**	$ 804,626
Weighted average term to maturity	**4.1 years**	4.7 years
Weighted average interest rate	**4.9%**	5.0%
Percentage of mortgages and subordinated term loan at floating interest rate debt	**23.0%**	12.5%
Convertible debentures		
Convertible debentures outstanding	**$ 211,220**	$ 211,220
Weighted average term to maturity	**2.2 years**	2.5 years
Weighted average interest rate	**6.0%**	6.0%

The reduction in the weighted average term to maturity as compared to December 31, 2015 results from the use of the REIT's operating line and bridge loan to fund the acquisition of the Ottawa Marriott Hotel pending the planned sale of hotels. Excluding the operating line and bridge loan, InnVest's weighted average term to maturity was 4.6 years.

On March 31, 2016, InnVest completed the $54.4 million mortgage financing of its recently acquired Marriott Ottawa Hotel. The 7-year mortgage with a U.S. financial institution has a fixed interest rate of 3.87%.

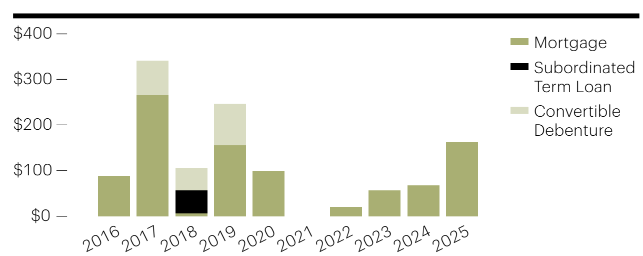
InnVest partially funded the Ottawa Marriott Hotel through a bridge loan of $52.0 million. On March 31, 2016, $42.0 million of the bridge loan was repaid from the proceeds of the long-term financing on the hotel property. As at March 31, 2016, the amount outstanding on bridge loan was $10.0 million. The bridge loan matures on May 31, 2016 and bears interest at either, the Canadian bank prime rate plus 3.5% or the Canadian Bankers' Acceptance rate plus 4.5%. The bridge loan was repaid in full in early May 2016 following the financing of the Courtyard by Marriott Toronto as described below.

On May 2, 2016, InnVest and KingSett completed a 2-year mortgage financing on the Courtyard by Marriott Toronto hotel for $82.0 million at an interest rate of either (i) the Canadian bank prime rate plus 1.75%, or (ii) the Canadian Bankers' Acceptance rate plus 2.75%. InnVest's portion of the financing totalled $27.3 million.

In December 2016, approximately $47 million of debt, that bears interest at 5.8% and which represents 5.8% of the total outstanding mortgage and other debt, matures on two hotel properties. InnVest is proceeding in the normal course to refinance its 2016 maturities.

At March 31, 2016, InnVest has three series of fixed-rate convertible debentures totalling $211.2 million (December 31, 2015 – $211.2 million). Two of the series, totalling $125.0 million are currently callable at par.

The following chart highlights InnVest's mortgage, subordinated term loans and convertible debentures maturity schedule at March 31, 2016.



Leverage

InnVest is not permitted to exceed certain financial leverage amounts under the terms of its Declaration of Trust. InnVest is permitted to incur indebtedness up to 60% of gross asset value (75% including convertible debentures). The financial ratio is computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, and trade accounts payable and, for greater certainty, deferred income tax liability. Management's policy is not to exceed this leverage limit at any time during the year. Separately, InnVest is further limited by its operating line covenant, which limits aggregate indebtedness (including convertible debentures) to a level up to 65% of gross asset value at the end of every quarter.

At March 31, 2016, InnVest's leverage was 62.3% (December 31, 2015 – 58.2%). InnVest's leverage excluding convertible debentures was 51.0% (December 31, 2015 – 46.1%).

Total assets per Consolidated Balance Sheet	$ 1,432,302	
Accumulated depreciation and amortization	444,239	
Gross Asset Value	$ 1,876,541	
Book value of mortgages and other indebtedness[1]	$ 957,098	51.0%
Convertible debentures[2]	211,220	11.3%
Total debt	$ 1,168,318	62.3%

(1) Gross of financing issuance costs.
(2) Adjusted to face value

InnVest's financial strategy includes maintaining a strong balance sheet with appropriate leverage and staggered debt maturities in order to minimize InnVest's cost of capital and provide adequate financial flexibility to withstand market cycles. As part of its 2016 strategic objectives, InnVest has a target to reduce its debt leverage (total debt to gross asset value) below 55% and to further reduce reliance on dilutive convertible debt. Based on planned financing and hotel disposition activities, management expects its leverage to be below 60% by the end of the year. Notwithstanding, there is no assurance that InnVest will achieve and maintain its targeted leverage reduction in a set timeframe. Refer to *Risks and Uncertainties*.

Contractual Obligations Repayment Summary

Given available liquidity, access to capital and expectations of improving economic and operating trends, management expects to be able to fund all commitments in the normal course of business.

The following table summarizes InnVest's contractual obligations as at March 31, 2016. In addition to amounts shown in the table below, InnVest, through its partial ownership of the Royal York Partnership and the Courtyard Marriott Toronto, has minimum capital commitments to fund capital expenditures and working capital needs of the hotel over an unspecified period of time.

	2016	2017	2018	2019	2020	2021 and Thereafter	Contractual Cash flows[1]
Accounts payable and accrued liabilities	$ 67,810	$ –	$ –	$ –	$ –	$ –	$ 67,810
Mortgage and subordinated term loan payable	–	–	–	–	–	–	–
– principal[2]	59,190	179,043	68,626	149,570	94,318	271,651	822,398
– interest[3]	34,378	31,467	23,880	17,263	13,714	37,811	158,513
Operating line			–				
– principal	30,000	94,700	–	–	–	–	124,700
– interest	3,806	2,419	–	–	–	–	6,225
Bridge loan							
– principal	10,000	–	–	–	–	–	10,000
– interest	103	–	–	–	–	–	103
Convertible debentures							
– principal	–	74,995	49,975	86,250	–	–	211,220
– interest	6,382	12,764	6,827	2,695	–		28,668
Long-term leases	1,543	2,057	2,061	2,047	1,973	71,597	81,278
Capital commitments	12,772	–	–	–	–	–	12,772
Total	$ 225,984	$ 397,445	$ 151,369	$ 257,825	$ 110,005	$ 381,059	$1,523,687

(1) Contractual cash flows include principal and interest payments.
(2) Mortgage principal includes regular amortization and repayments at maturity.
(3) Interest for floating rate debt is based on interest rates prevailing at March 31, 2016.

As at March 31, 2016, InnVest has leasehold interests in seven of its hotels. The leasehold interests require minimum annual average lease payments and expire between 2018 and 2088. At March 31, 2016, the average term of InnVest's leaseholds exceeded 35 years.

Contingent Obligations

InnVest and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business. In the normal course of business, InnVest receives default notices relating to the maintenance of brand standards at certain hotels. InnVest typically disputes such notices and negotiates a resolution with its franchisors or management companies.

Most contingencies are resolved over long periods of time, and liabilities may change in the future due to new developments (including litigation developments, the discovery of new facts, changes in legislation and outcomes of similar cases), changes in assumptions or changes in the REIT's litigation strategy.

DISTRIBUTIONS TO UNITHOLDERS

For the three months ended March 31, 2016, distributions totalling $13.4 million were declared ($0.0999 per unit monthly), consisting of cash distributions paid of $11.4 million and reinvested distributions of $2.0 million provided under the distribution reinvestment plan ("DRIP"). While the per unit level of distribution was unchanged, total distributions paid increased by $1.5 million compared to the same period in the prior year reflecting the issuance of additional units over the year from the DRIP as well as the equity offering in July 2015 (refer to *Unit Information*). The non-cash distributions have the effect of increasing the number of units outstanding, which will cause cash distributions to increase over time assuming stable per unit distribution levels.

Liquidity to fund distributions is generated from cash flow from operations, cash on hand, capacity under the operating line and by the ability to finance certain under-leveraged assets. First and fourth quarter distributions are typically partially funded through cash on hand and/or the temporary use of InnVest's revolving operating line given the seasonality of revenues in contrast to costs which are fixed throughout the year.

Distributions in excess of cash flow from operations represent a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated by InnVest's continuing operations during the period. In the first and fourth quarters primarily, InnVest has elected to provide distributions partly representing a return of capital in order to maintain the stability of current distribution levels. Management believes that the current per unit level of distributions is sustainable, given that the trailing twelve-month cash flow from operations is sufficient to cover distributions. Distributions are set based on annual results and not quarterly results, which are subject to seasonal fluctuations.

For the twelve months ended March 31, 2016, InnVest's distribution payout ratio was 86.6% of AFFO, as compared to 81.2% at December 31, 2015. The higher payout ratio reflects the higher number of units outstanding (equity offering in July 2015) in comparison to the low earning period for hotels added to the portfolio. Management expects its payout ratio to normalize on an annual calendar basis. When considering the DRIP, the payout ratio was 71.0%, as compared to 68.8% at December 31, 2015.

	TMM March, 2016	Years ended December 31, 2015	2014	2013	2012	2011
AFFO	**$ 60,295**	$ 62,525	$ 44,351	$ 46,185	$ 44,619	$ 46,440
Distributions	**52,220**	50,751	39,222	37,465	37,383	44,896
AFFO in excess of (less than) distributions	**8,075**	11,774	5,129	8,720	7,236	1,544
Non-cash distributions made through the DRIP	**9,431**	7,711	3,224	500	143	309
AFFO in excess of (less than) cash distributions	**$ 17,506**	$ 19,485	$ 8,353	$ 9,220	$ 7,379	$ 1,853
AFFO Payout ratios:						
Total distributions	**86.6%**	81.2%	88.4%	81.1%	83.8%	96.7%
Cash distributions (excluding DRIP)	**71.0%**	68.8%	81.2%	80.0%	83.5%	96.0%

Distributions to unitholders are approved by InnVest's Board. Each month, InnVest may distribute such percentage of its estimated AFFO as the Trustees determine in their discretion. In exercising their discretion to approve the level of distributions, the Trustees rely on annual forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to change due to the nature of the Canadian hotel industry, which can be difficult to predict, even in the short run. Refer to *Risks and Uncertainties*.

To provide a notional allocation for annual capital expenditures, InnVest deducts a reserve for capital expenditures based on 4% to 5% of hotel revenues (the "FF&E Reserve"). Whether funds are specifically set aside or not, the FF&E Reserve is used in determining the level of distributions paid to unitholders and, as such, is considered a source of funding to maintain the quality of the portfolio. Actual capital spent in any given year may be in excess of this FF&E Reserve for that year, as demonstrated for the past three calendar years as InnVest completed its strategic plan and invested $179.0 million in the portfolio, such that, if actual spending was deducted, distributions would have exceeded annual cash flow. Capital invested in excess of the FF&E Reserve over the past three calendar years was funded through the sale of assets and cash available from the issuance of additional debt. Annual capital expenditures are expected to exceed the FF&E Reserve for the full year 2016 based on the extensive renovation program anticipated during the year. Refer to *Our Strategy*.

When assessing future distribution levels, management and the Board believe in maintaining a stable and conservative distribution level to minimize risk. Assuming improving cash flow from operations, this would result in a declining payout ratio over time.

UNIT INFORMATION

Since January 1, 2016, InnVest issued units as follows:

Units outstanding, January 1, 2016	133,768,240
Distribution reinvestment plan	411,873
Executive compensation plan	42,790
Units outstanding, March 31, 2016	134,222,903
Issued subsequent to the quarter	
Distribution reinvestment plan	76,854
Executive compensation plan	50,000
Units outstanding, May 10, 2016	134,349,757

The following table summarizes the number of units issuable based on the convertible debentures outstanding at March 31, 2016.

Convertible Debentures	Maturity Date	Conversion Strike Price	Balance Outstanding	Units to Be Issued Upon Conversion
Series E	September 30, 2017	$ 8.00	$ 74,995	9,374,375
Series F	March 30, 2018	$ 9.45	$ 49,975	5,288,359
Series G	March 31, 2019	$ 7.50	$ 86,250	11,500,000

For each series of debentures, InnVest may elect, from time to time, to satisfy its obligation to pay interest by delivering units. Also, for each of its debentures, InnVest may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the debentures that are to be redeemed or that are to mature by issuing units. The number of 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 units on the Toronto Stock Exchange 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. As at March 31, 2016, the Series E and Series F Debentures are currently redeemable at face value.

Distribution reinvestment plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from InnVest automatically reinvested in additional units of InnVest. InnVest has the discretion to satisfy the DRIP through the purchase of units on the open market or to issue units from treasury. If InnVest elects to issue units from treasury, unitholders who have elected to participate in the DRIP will receive 3% bonus units in addition to any units issued to them under the DRIP.

Executive compensation program

InnVest's executive compensation program provides for the grant of restricted units to certain senior employees. Units granted vest not more than four years from the effective date of grant. Upon vesting, the payment will be satisfied through the issuance of units. Unvested units are presented in liabilities at their fair value. Upon issuance of units (following the satisfaction of all vesting conditions), the liability is reclassified to Unitholders' equity' at the then-current fair value based on the market price of the REIT's units. Units granted to executives entitle the holder to also accumulate units equal to the monthly cash distributions, assuming the reinvestment of the distribution into units. At March 31, 2016, there were 269,316 unvested executive units granted under the plan (December 31, 2015 – 101,927).

Andrew Coles was appointed as InnVest's President and CEO, effective January 26, 2015. Mr. Coles was awarded an equity grant effective on his start date, January 26, 2015, of 400,000 units vesting at a rate of 80,000 units ('tranche") over a four-year period with the first tranche vesting upon his start date and each subsequent tranche vesting on each subsequent anniversary thereafter. In 2015, 80,000 units relating to the first tranche of the 400,000 units were awarded to Mr. Coles. Under the terms of the 2015 equity grant, the second tranche of 80,000 units are to be awarded in 2016. In January 2016, 30,000 units of the second tranche were awarded with the remaining 50,000 units awarded in April 2016.

Trustee compensation program

InnVest's Trustees participate in a Deferred Unit (DU) compensation plan involving the grant of deferred units. The plan entitles trustees, at their option, to receive up to 100% of their annual retainer in the form of deferred units. InnVest matches, on a one-for-one basis, the number of deferred units elected to be received by the Trustee. Therefore the value of deferred units granted is equal to the trustee's election multiplied by two. The number of deferred units granted result in the award of units on a one-for-one basis upon the trustee's departure from the Board or, at the Board's discretion, may be settled in cash. The number of deferred units granted is based on the five-day weighted average price of units on the day preceding the award date. Deferred units granted entitle the holder to also accumulate deferred units equal to the monthly cash distributions, assuming the reinvestment of the distribution into units.

As at March 31, 2016, 317,424 DUs (December 31, 2015 – 265,179 DUs) were granted to Trustees under the trustee compensation structure. An additional 39,596 DUs were issued in April 2016 in relation to first quarter compensation and DRIP accumulation.

RELATED PARTY TRANSACTIONS

In accordance with InnVest's corporate governance practices, all related party agreements are approved by a majority of the independent trustees.

KingSett Capital

An InnVest Trustee who is also a unitholder, is the Managing partner of KingSett Real Estate Growth LP No. 5 ("KingSett LP No. 5). On April 24, 2014, InnVest completed a credit agreement with KingSett LP No. 5 (a fund managed by KingSett) (the "Credit Agreement") for a $50.0 million subordinated term loan facility (the "Term Loan"). The Term Loan is outstanding for a four-year term, bears regular interest payments of 8.75% per annum (the "Term Interest Payments") and is supported by a general security agreement. A trustee of the REIT has an indirect controlling interest in KingSett.

In the first year that the Term Loan was outstanding, a portion of the Term Interest Payments due in that year, equal to 3% per annum, was payable in units at the option of KingSett. During the three subsequent years, the same portion of the Term Interest Payments will be payable in units if mutually agreed by KingSett and InnVest. Any units will be issued at a price equal to the five-day volume-weighted average price of the units on the TSX prior to the date of each issuance. Since its inception, InnVest issued 146,950 units in satisfaction of the Term Interest Payments. No units were issued during the three months ended March 31, 2016 (2015 – nil units).

In February 2015, InnVest acquired a 20% interest in the Royal York Hotel through an arrangement with KingSett LP No. 5, and Ivanhoé Cambridge (collectively, the "Partnership"). KingSett LP No. 5, with its 60% interest, is the managing partner of the Partnership. InnVest is the hotel asset manager and oversees the property's hospitality operations. Ivanhoé Cambridge retained a 20% interest in the property. Under the terms of the Partnership, no fees will be paid between InnVest and KingSett LP No. 5 for the services provided by each.

In August 2015, InnVest acquired a 33.3% interest in the Courtyard Marriott in Toronto while KingSett LP No. 5 acquired the remaining 66.7% interest. InnVest is also the hotel asset manager for the property and earns a nominal management fee for this service, which is recorded in "Other Expenses and (Income)".

Westmont Hospitality Group ("Westmont")

Westmont ceased being a related party in the first quarter of 2016 following the retirement of a trustee from InnVest's board.

In 2015, InnVest paid Westmont for services under a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements"). For the three months ended March 31, 2015, fees charged by Westmont pursuant to the Agreements totalled $3.5 million.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS FINANCIAL MEASURES

InnVest's Interim Financial Statements are prepared in accordance with IFRS. Included in this MD&A are certain additional IFRS measures and non-IFRS measures, which are measures of InnVest's historical or future financial performance that are not calculated and presented in accordance with IFRS. These measures are unlikely to be comparable to similar measures presented by other reporting issuers. InnVest uses these measures to better assess its underlying performance and provides these additional measures so that investors may do the same. The following discussion defines the measures used by InnVest and presents why management believes they are useful supplemental measures of InnVest's performance.

Additional IFRS Financial Measures

GROSS OPERATING PROFIT

GOP is defined as revenues less hotel properties expenses. In the prior period, GOP included results of operations from other real estate assets, all of which were divested in late 2015.

GOP has been calculated as follows:

Measures which reflect the cash flow generating ability of real estate assets are commonly used by real estate owners which, when considered with IFRS measures, give management a more complete understanding of property level results before debt service. It also facilitates comparisons between InnVest and its competitors. Management believes that GOP, specifically Hotel GOP, is one of InnVest's key performance indicators since it helps management, lenders and investors evaluate its core business' ongoing profitability.

GOP is an additional IFRS financial measure derived from the Interim Financial Statements but does not have a standardized meaning prescribed by IFRS. Therefore it is unlikely to be comparable to similar measures presented by other issuers.

	Three Months Ended March 31,	
	2016	2015
Revenues	**$ 111,960**	$ 110,066
Hotel and other real estate properties		
Operating expenses	**84,961**	81,986
Property taxes, rent and insurance	**9,179**	9,157
Management fees	**2,947**	3,577
	97,087	94,720
Gross operating profit	**14,873**	15,346
Gross operating profit margin	**13.3%**	13.9%

Non-IFRS Financial Measures

FUNDS FROM OPERATIONS ("FFO")

FFO is a common measure of performance in the real estate investment trust industry. FFO is one measure used by industry analysts and investors in the determination of InnVest's valuation, its ability to fund distributions and investors' investment return requirements. As a result, InnVest believes that FFO is a useful supplemental measure of its operating performance for investors. FFO assumes that the value of real estate investments does not necessarily decrease on a systematic basis over time, an assumption inherent in our application of IFRS (given the depreciation charge), and it adjusts for items included in net income that do not necessarily provide the best indicator of operating performance, such as gains or losses on the sale of assets, provisions for impairment (and impairment reversals) of assets as well as changes in the fair value of certain equity-based financial instruments classified as financial liabilities.

FFO should not be considered a substitute for net income or cash flow from operating activities determined in accordance with IFRS.

InnVest presents FFO in accordance with Real Property Association of Canada's ("REALpac") White Paper on Funds From Operations revised in April 2014 except that InnVest excludes unusual items which are not in the normal course of business and are not expected to reoccur. InnVest's method of calculating FFO may be different from that of other organizations.

InnVest calculates FFO by using net income or loss and adjusting for:

i) Depreciation, amortization and accretion, excluding amortization of deferred financing costs (including related costs included in equity accounted entities);

ii) Deferred income tax expense or recovery;

iii) Any gains or losses on the disposition of assets or the settlement of liabilities;

iv) Non-cash writedown of assets held for sale as well as the impairment provision (and impairment reversals) on assets;

v) Non-cash effect of certain equity-based financial instruments classified as financial liabilities under IFRS (includes distributions included in corporate and administrative expense and changes to fair value each reporting period);

vi) Transaction costs expensed as a result of the purchase of a property being accounted for as a business combination; and

vii) Non-recurring costs that may impact cash flow. Items are considered non-recurring when a similar loss or gain is not reasonably likely to occur within the next two years and has not occurred during the prior two years.

A reconciliation of IFRS net loss and comprehensive loss to FFO is as follows:

	Three Months Ended March 31, 2016	2015
Net loss and comprehensive loss	**$ (29,274)**	$ (23,233)
Add (deduct)		
Non-cash items:		
Depreciation and amortization[1]	**22,934**	21,165
Unrealized changes in the fair value of financial liabilities (including fair value changes in unit-based compensation)	**(467)**	(1,221)
Reversal of writedown	**(210)**	–
Distributions included in expenses		36
Loss on sale on assets		45
Gain on early redemption and amendment of convertible debentures		(196)
Other items:		
Acquisition cost	**2,218**	–
Funds from operations (FFO)	**$ (4,799)**	$ (3,404)
FFO per unit		
Basic	**$ (0.036)**	$ (0.029)
Diluted	**$ (0.036)**	$ (0.029)
Weighted average units outstanding		
Basic	**134,063,906**	118,646,773
Adjustment to basic weighted average units outstanding		
Conversion of deferred units and restricted units	**364,746**	552,981
Diluted weighted average units outstanding	**134,428,652**	119,199,754

(1) Includes depreciation and amortizaton included in 'Share of loss from investment in associate' and 'Share of income from joint ventures'.

Adjusted Funds from Operations ("AFFO")

InnVest uses AFFO as its measure of normalized cash flow in order to assess its ability to fund distributions for current or potential investors.

AFFO is defined as FFO adjusted for:

i) Non-cash deferred financing charges (including related costs included in equity accounted entities);

ii) The FF&E Reserve; and

iii) Any other adjustment determined by the Board in their discretion.

A reconciliation of FFO to AFFO is as follows:

	Three Months Ended March 31, 2016	2015
FFO	**$ (4,799)**	$ (3,404)
Add (deduct)		
Non-cash portion of mortgage interest expense[(1)]	**1,649**	1,938
Non-cash portion of convertible debentures interest and accretion	**774**	852
FF&E Reserve[(2)]	**(5,026)**	(4,558)
AFFO	**$ (7,402)**	$ (5,172)
AFFO per unit		
Basic	**$ (0.055)**	$ (0.044)
Diluted	**$ (0.055)**	$ (0.044)
Weighted average unit outstanding		
Basic	**134,063,906**	118,646,773
Adjustment to basic weighted average unit outstanding		
Conversion of deferred units and restricted units	**364,746**	552,981
Diluted	**134,428,652**	119,199,754

(1) Includes deferred financing amortization included in 'Share of loss from investment in associate' and 'Share of income from joint ventures'.
(2) Includes proportion of FF&E Reserve related to Investment in associate and joint ventures.

AFFO is also used by management and the Board to determine the level of distributions to unitholders and also serves as an important measure for investors in their evaluation of the performance of management.

In addition, when evaluating acquisition opportunities, the AFFO to be generated by the asset is reviewed by management to determine whether a proposed acquisition is expected to generate an increase in AFFO per unit. Therefore, AFFO is an important measure for management as a guideline through which operating and financial decisions are made and is an integral part of the investment decision for investors and potential investors. There is no standard industry-defined measure of AFFO. InnVest's method of calculating AFFO may be different from that of other organizations.

The reconciliation of cash from operating activities to AFFO is as follows:

	Three Months Ended March 31, 2016	2015
Cash flow generated from (utilized in) operating activities	**$ 27**	$ (7,650)
Changes in non-cash working capital	**(8,908)**	3,151
Joint venture income	**901**	926
Loss from associate	**(343)**	(347)
Acquisition costs	**2,218**	–
Change in accrued interest accounts	**1,574**	3,801
Others, net	**2,155**	(495)
FF&E Reserve	**(5,026)**	(4,558)
AFFO	**$ (7,402)**	$ (5,172)

RISKS AND UNCERTAINTIES

The achievement of InnVest's objectives is, in part, dependent on the successful mitigation of business risks identified. All real estate investments are subject to a degree of risk including changes in general economic and local market conditions including variable regional economic conditions including dependence on manufacturing, energy or other resource market, competition from other hotels, new supply, equity and credit market conditions, fluctuations in interest costs, compliance with legislative requirements and various other factors.

There have been no changes to InnVest's assessment of its risk factors since December 31, 2015. For a discussion of risk factors that have been identified, readers should refer to InnVest's 2015 Annual Report and InnVest's Annual Information Form dated March 23, 2016, both of which are available on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of InnVest's financial position and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of financial statements requires management to make judgments, estimates and assumptions concerning the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Management uses its judgment and knowledge from past experience as a basis for estimates and other assumptions required in the preparation of the financial statements. Management's estimates and assumptions are evaluated and updated on a regular basis taking into account current market conditions. The actual results may materially differ, if management were to use different estimates and assumptions.

The significant accounting policies used in the preparation of the interim Financial Statements for the three months ended March 31, 2016 are consistent with those reported in the audited consolidated financial statement for the year ended December 31, 2015.

ACCOUNTING POLICY CHANGES

During the three months ended March 31, 2016, InnVest adopted revised accounting pronouncements as described below.

Amendments to IAS 1, Disclosure Initiative

The amendments to IAS 1 relate to (i) materiality; (ii) order of notes; (iii) subtotals; (iv) accounting policies; and (v) disaggregation, and are designed to improve presentation and disclosure in financial reports by encouraging companies to apply professional judgment in determining what information to disclose in financial statements. Amendments to IAS 1 were effective for annual periods beginning on or after January 1, 2016, with early application permitted. InnVest adopted this standard on January 1, 2016. This amendment to IAS 1 had no material impact on InnVest's consolidated financial statements or note disclosure.

IFRS 11- Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 relate to the addition of new guidance on accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3. Acquirers of such interests are to apply the relevant principles on business combination accounting in IFRS 3 and other standards, as well as disclosing the relevant information specified in these standards for business combinations. This amendment to IFRS 11 was effective for annual periods beginning on or after January 1, 2016. InnVest adopted this standard on January 1, 2016. This amendment to IFRS 11 had no material impact on InnVest's consolidated financial statements or note disclosure.

FUTURE ACCOUNTING CHANGES

InnVest has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that there have not been any changes to expected future accounting changes than those described in Note 2 to the audited consolidated financial statements at December 31, 2015.

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal controls over disclosure controls and procedures, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("52-109"), of the Canadian Securities Administrators. The Chief Executive Officer and the Chief Financial Officer have assessed, or caused an assessment to be made under their direct supervision, of the design and operating effectiveness of InnVest's internal controls over financial reporting as at March 31, 2016, based on the criterial set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In 2015, InnVest updated its internal controls over financial reporting to the criteria set forth in *Internal Control – Integrated Framework (2013)* from the 1992 Framework. This update has not resulted in any significant changes in internal controls over financial reporting during the three months ended March 31, 2016. In order to effect an efficient and effective transition, InnVest established an implementation team and program including the engagement of external resources to assist with the update and testing process.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The inherent limitations in all controls systems ensure that no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgment could ultimately prove to be incorrect under varying conditions and circumstances; and/or (ii) the impact of material errors.

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

As part of our annual internal control certification process to satisfy the requirements of 52-109, management identified material weaknesses in the internal control processes in connection with the tendering, awarding and monitoring of capital projects.

Management has hired an external advisor to assist in the remediation of the internal control material weaknesses identified. Management has developed a comprehensive plan for the remediation of internal control deficiencies, which will be implemented over the course of 2016. The remediation process is underway, however until the remediation process is complete, there is a possibility that the internal controls over financial reporting relating to the tendering, awarding and monitoring of capital projects will fail to detect a material misstatement in the consolidated financial statements on a timely basis.

Management does not believe that internal control weaknesses contributed to a material misstatement of the REIT's Interim Financial Statements, or notes thereto, for the three months ended March 31, 2016.

FORWARD-LOOKING STATEMENTS

In the interest of providing InnVest unitholders and potential investors with information regarding InnVest, certain statements contained in this MD&A constitute forward-looking statements within the meaning of applicable securities laws. These statements include, but are not limited to, statements made concerning InnVest's investment approach, objectives, its strategies to achieve those objectives, assumptions and forecasts of future results from acquisitions and divestitures as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances and performance or expectations that are not historical facts. Forward-looking information typically contains statements with words such as "outlook", "objective", "may", "could", "continue", "anticipate", "believe", "expect", "estimate", "plan", "intend", "forecast", "project" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on certain factors, assumptions and analyses made by InnVest in light of information currently available to management, management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances, including those factors set out below.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on InnVest's estimates and assumptions, which are subject to risks and uncertainties, including those referenced under "Risk and Uncertainties" in this MD&A and those detailed in InnVest's filings with applicable securities regulators, including InnVest's audited consolidated financial statements and the notes thereto for the years ended December 31, 2015. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, InnVest's forward-looking information involves numerous assumptions, inherent risks and uncertainties, which may cause InnVest's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited, to the inability to complete the planned acquisition by Bluesky Hotels and Resorts, Inc; the status of InnVest as a real estate investment trust for Canadian federal income tax purposes in any year; achievement of plans to develop an optimal asset portfolio through completion of acquisitions, divestitures, and reinvestments within the timeframes necessary to generate the desired return on investment; maintain adequate liquidity; successfully achieve planned liquidity activities; extent of realized benefits from the internalization of asset management functions; ability to refinance debt maturities as planned; ability to achieve and maintain a lower debt leverage target; ability to reduce payout ratio; ability to sustain the current level of unit distributions; ability to fund acquisitions at a capital cost and equity/debt mix as desired; lender concentration; general global credit market conditions including currency and interest rate fluctuations; general global economic and business conditions; variable regional economic conditions including dependence on manufacturing, oil or other resource markets; failure to effectively understand and respond to changing guest demands and/or failure to meet guest needs; failure to effectively manage relationships with hotel brands including failure to comply with the appropriate standards and contractual requirements; failure to effectively manage relationships with operators including operator managed employee satisfaction, morale, and effectiveness; medical or terrorist concerns relating to travel and/or specific destinations; reliance on entities that provide management services to InnVest, including pursuant to the Master Hotel Management Agreement; the impact of lower oil prices and the decline in the Canadian dollar compared to the U.S. dollar on travel; the effects of competition and pricing pressures from multiple bidders for acquisitions; development and opening of new hotel properties; aggressive marketing, and service or product quality improvements by competitors; extent of industry overcapacity; changes in the level of cross-border travel by Americans to Canada and other possible shifts in market demands; adverse changes in laws and regulations, including environmental and taxation; failure to leverage technological innovation to achieve or sustain financial and operational efficiency, competitive advantage, and deliver better quality services to guests; potential increases in maintenance and operating costs; possible variances in the amount and timing of completion for planned capital or maintenance projects; failure of planned capital projects to result in desired shift in business mix; uncertainties of litigation; labour disputes; various events which could disrupt operations; reliance on information systems and associated security risks; the effect of a data breach or significant disruption of hotel information technology networks as a result of cyber attacks and technological changes including impact of direct internet reservation systems and potential impact of new disruptive hospitality offerings in the market.

Although InnVest believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will be consistent with these forward-looking statements. The forward-looking statements contained in these Interim Financial Statements are made as of the date of these Interim Financial Statements.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) (unaudited)	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash	**$ 23,384**	$ 9,269
Accounts receivable	**25,306**	25,268
Prepaid expenses and other assets	**10,126**	11,363
Assets held for sale (Note 3)	**18,681**	15,984
	77,497	61,884
Non-current assets		
Restricted cash (Note 4)	**3,215**	2,881
Investment in joint ventures (Note 5)	**38,011**	36,453
Investment in associate (Note 6)	**19,640**	19,983
Hotel properties (Note 8)	**1,281,996**	1,181,422
Prepaid expenses and other assets	**2,423**	1,500
Intangible assets (Note 9)	**9,520**	9,929
Total assets	**$ 1,432,302**	$ 1,314,052
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 67,810**	$ 61,277
Distributions payable	**4,471**	4,455
Long-term debt (Note 10)	**103,611**	62,963
Other long-term obligations (Note 13)	**220**	203
Liabilities related to assets held for sale (Note 3)	**491**	11,220
	176,603	140,118
Non-current liabilities		
Long-term debt (Note 10)	**841,686**	720,416
Convertible debentures (Note 11)	**203,421**	202,648
Provisions (Note 12)	**12,352**	11,936
Other long-term obligations (Note 13)	**3,964**	4,024
Other liabilities (Note 14)	**5,424**	5,607
	1,243,450	1,084,749
UNITHOLDERS' EQUITY	**188,852**	229,303
	$ 1,432,302	$ 1,314,052

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(in thousands of Canadian dollars, except per unit amounts) (unaudited)	**Three Months Ended March 31, 2016**	Three Months Ended March 31, 2015
Revenues (Note 24)	**$ 111,960**	$ 110,066
Hotel and other real estate properties		
Operating expenses	**84,961**	81,986
Property taxes, rent and insurance	**9,179**	9,157
Management fees	**2,947**	3,577
	97,087	94,720
Gross operating profit	**14,873**	15,346
Other expenses		
Corporate and administrative	**3,872**	2,981
Interest expense		
Mortgages and other debt	**12,854**	12,746
Convertible debentures	**3,965**	4,353
Share of income from joint ventures (Note 5)	**(749)**	(765)
Share of loss from investment in associate (Note 6)	**343**	347
Other expense (income), net (Note 21)	**2,151**	(720)
Reversal of writedown (Note 22)	**(210)**	–
Depreciation and amortization	**22,410**	20,809
Unrealized gain on liabilities presented at fair value (Note 23)	**(489)**	(1,172)
Net loss and total comprehensive loss	**$ (29,274)**	$ (23,233)
Net loss per unit (Note 18)		
Basic and diluted	**$ (0.218)**	$ (0.196)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY (DEFICIT)

(in thousands of Canadian dollars) (unaudited)	Deficit	Units in $	Total
Balance December 31, 2014	$ (556,872)	$ 758,863	$ 201,991
CHANGES DURING THE PERIOD			
Net loss and total comprehensive loss	(23,233)	–	(23,233)
Distributions to unitholders (Note 17)	(11,932)	–	(11,932)
Distribution reinvestment plan units issued (Note 17)	–	284	284
Vested executive compensation (Note 17)	–	838	838
Issue of new units, net (Note 17)	–	34,544	34,544
Balance March 31, 2015	$ (592,037)	$ 794,529	$ 202,492
Balance December 31, 2015	**$ (621,164)**	**$ 850,467**	**$ 229,303**
CHANGES DURING THE PERIOD			
Net loss and total comprehensive loss	**(29,274)**	**–**	**(29,274)**
Distributions to unitholders (Note 17)	**(13,401)**	**–**	**(13,401)**
Distribution reinvestment plan units issued (Note 17)	**–**	**2,004**	**2,004**
Vested executive compensation (Note 17)	**–**	**220**	**220**
Balance March 31, 2016	**$ (663,839)**	**$ 852,691**	**$ 188,852**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	**Three Months Ended March 31, 2016**	Three Months Ended March 31, 2015
OPERATING ACTIVITIES		
Net loss and total comprehensive loss	**$ (29,274)**	$ (23,233)
Add (deduct) items not affecting cash		
Depreciation and amortization	**22,410**	20,809
Loss on sale of hotel properties, net (Note 21)	**–**	45
Gain on redemption and amendment of convertible debentures (Note 21)	**–**	(196)
Reversal of writedown of hotel properties, net (Note 22)	**(210)**	–
Unrealized gain on liabilities presented at fair value (Note 23)	**(489)**	(1,172)
Non-cash executive and trustee compensation	**220**	838
Share of income from joint venture (Note 5)	**(901)**	(926)
Share of loss from investment in associate (Note 6)	**343**	347
Convertible debentures interest and accretion	**3,965**	4,353
Interest on mortgages and other debt	**12,854**	12,746
Interest expense paid	**(17,799)**	(18,110)
Changes in non-cash working capital (Note 19)	**8,908**	(3,151)
Cash generated from (utilized in) operating activities	**27**	(7,650)
FINANCING ACTIVITIES		
Proceeds from operating line	**109,700**	–
Proceeds from bridge loan	**52,000**	–
Repayment of bridge loan	**(42,000)**	–
Repayment of long-term debt	**(21,628)**	(4,284)
Proceeds from long-term debt, net of issuance costs	**52,776**	–
Redemption and cancellation of convertible debentures	**–**	(3,643)
Distributions to unitholders	**(11,381)**	(11,450)
Cash generated from (utilized in) financing activities	**139,467**	(19,377)
INVESTING ACTIVITIES		
Capital expenditures (Note 24)	**(17,936)**	(10,081)
Investment in joint venture (Note 5)	**(1,700)**	(18,759)
Dividends received from investment in joint venture (Note 5)	**1,043**	887
Acquisition (Note 7)	**(111,910)**	–
Proceeds from sale of assets, net of working capital (Note 3)	**5,730**	6,959
Payment of costs associated with sale of assets (Note 3)	**(272)**	(914)
(Increase) decrease in restricted cash	**(334)**	92
Cash utilized in investing activities	**(125,379)**	(21,816)
Increase (decrease) in cash during the period	**14,115**	(48,843)
Cash, beginning of the period	**9,269**	56,404
Cash, end of the period	**$ 23,384**	$ 7,561

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016 (all Canadian dollar amounts are in thousands, except unit and per unit amounts) (unaudited)

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. As at March 31, 2016, the REIT owned 107 Canadian hotels as well as interests in two partnerships which own two hotels, each operated under international brands.

The REIT leases its hotels to InnVest Hotels Trust ("IHT"), an indirectly-owned unit trust. IHT indirectly holds all of the hotel operating assets, earns revenues from hotel customers and pays rent to the REIT. IHT also indirectly holds a 50% interest in Choice Hotels Canada Inc. ("CHC"). At March 31, 2016, InnVest wholly-owns an indirect interest in the entities that carry on the business of operating hotels.

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

Units of InnVest trade on the Toronto Stock Exchange (the "TSX") under the symbol INN.UN.

InnVest's registered office is at 200 Bay Street, Royal Bank Plaza, South Tower, Suite 2200, Toronto, M5J 2J1.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2015 except as noted below in respect of amendments to IFRS 11 and IAS 1. These financial statements should be read in conjunction with InnVest's consolidated financial statements for the year ended December 31, 2015.

b) Comparative period

Comparative period balances have been reclassifed to conform to current year presentation. As a result, 'Intangible assets' at December 31, 2015 were reduced by $1,500 and reclassified to non-current 'Prepaid expenses and other assets'. In addition, $732 was reclassified from 'Operating expenses' for the three months ended March 31, 2015 and was netted against 'Revenues'.

c) New accounting policies

IFRS 11 - JOINT ARRANGEMENTS: ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS

In May 2014, the IASB issued amendments to IFRS 11, the objective of which was to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3. Acquirers of such interests are to apply the relevant principles on business combination accounting in IFRS 3 and other standards, as well as disclosing the relevant information specified in these standards for business combinations. This amendment to IFRS 11 was effective for annual periods beginning on or after January 1, 2016, and has been applied prospectively. This amendment to IFRS 11 had no material impact on InnVest's consolidated financial statements or note disclosure.

AMENDMENTS TO IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

The amendments to IAS 1 relate to (i) materiality; (ii) order of notes; (iii) subtotals; (iv) accounting policies; and (v) disaggregation, and are designed to improve presentation and disclosure in financial reports by encouraging companies to apply professional judgment in determining what information to disclose in financial statements. Amendments to IAS 1 were effective for annual periods beginning on or after January 1, 2016. This amendment to IAS 1 had no material impact on InnVest's consolidated financial statements or note disclosure.

SEGMENT REPORTING CHANGE

Following the internalization of its asset management structure in 2015, effective January 1, 2016, the REIT realigned its reporting segments into Limited Service, Midscale and Upscale market segments. In addition, management continues to review operating performance by geographical area. Refer to Note 24.

d) Future accounting policies

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued its new revenue standard, IFRS 15, "Revenue from Contracts with Customers". IFRS 15 specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue Recognition", IAS 11, "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers with the exception of leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods on or after January 1, 2018. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

AMENDMENTS TO IFRS 9 – FINANCIAL INSTRUMENTS

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". This final version of IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. This new standard supersedes all prior versions of IFRS 9. Amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2018, with early application permitted. InnVest is currently evaluating the impact to the consolidated financial statements and plans to adopt this standard on the required effective date.

IFRS 16 – LEASES

In January 2016, the IASB issued IFRS 16 which replaces IAS 17, "Leases" and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. InnVest is currently assessing the impact of IFRS 16 on its consolidated financial statements and plans to adopt this standard on the required effective date.

3. ASSETS HELD FOR SALE

Assets held for sale at March 31, 2016 include two hotels (December 31, 2015 – two hotels). All assets and liabilities relating to these hotels have been classified to current assets and current liabilities and are outlined in the table below:

	March 31, 2016	December 31, 2015
Assets		
Accounts receivable	**$ 145**	$ 726
Prepaid expenses and other assets	**525**	156
Hotel properties, net of accumulated amortization (2016 – $8,234; 2015 – $8,291) (Note 8)	**17,915**	15,006
Intangible and other assets	**96**	96
Total assets	**$ 18,681**	$ 15,984
Liabilities		
Accounts payable and accrued liabilities	**$ 491**	$ 1,776
Long-term debt	**–**	9,444
Total liabilities	**$ 491**	$ 11,220

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once they have been classified as held for sale, depreciation ceases. The sale of these properties, which have been approved by the Board of Trustees, are highly probable and are expected to close within a year of their classification as held for sale.

Sale of assets

On March 31, 2016, InnVest sold one hotel (2015 – two hotels) for aggregate net proceeds after closing costs of $5,730. In connection with the hotel sale, InnVest recorded the reversal of a previous impairment of $210 which has been included in 'Reversal of writedown' (Note 22) in the condensed interim consolidated statements of net loss and comprehensive loss.

4. RESTRICTED CASH

The restricted cash of $3,215 (December 31, 2015 – $2,881) is held by InnVest to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

5. INVESTMENT IN JOINT VENTURES

The REIT has investments in two joint arrangements that are joint ventures as a result of shared control. One joint venture owns a hotel and the other owns a 50% interest in CHC.

Details of the REIT's investments in these joint ventures, which have been accounted for following the equity method, are as follows:

		Proportion of Ownership Interest	
Name of Entity	Name of Property/Activity	**March 31, 2016**	December 31, 2015
CYM Operations LP and CYM Acquisition LP ("CYM Partnership")	Courtyard by Marriott Toronto	**33.3%**	33.3%
Choice Hotels Canada, Inc.	Franchise Owner	**50%**	50%

The following table summarizes the aggregate movement of InnVest's investment in its joint ventures:

			Three Months Ended March 31, 2016			Year Ended December 31, 2015
	CHC	**CYM Partnership**	**Total**	CHC	CYM Partnership	Total
Opening balance beginning of period	**630**	**35,823**	**36,453**	1,179	–	1,179
Acquisition	**–**	**–**	**–**	–	34,593	34,593
Additional investment	**–**	**1,700**	**1,700**	–	700	700
InnVest's share of income (loss)	**952**	**(51)**	**901**	5,262	530	5,792
Distributions received	**(1,043)**	**–**	**(1,043)**	(5,811)	–	(5,811)
Closing balance, end of period	**539**	**37,472**	**38,011**	630	35,823	36,453

INTEREST IN COURTYARD BY MARRIOTT TORONTO

On August 26, 2015, InnVest acquired a 33.3% interest in the Courtyard by Marriott Toronto, a select-service hotel located in downtown Toronto, Ontario (the "Courtyard Toronto") in an arrangement with KingSett Real Estate Growth LP No. 5, an affiliate of KingSett Capital ("KingSett") with KingSett acquiring the remaining 66.7% interest in the hotel (collectively, the "CYM Partnership"). The CYM Partnership's office is located at 66 Wellington Street West, Toronto, Ontario.

A subsidiary of the REIT entered into an asset management agreement with the CYM Partnership for oversight of the Courtyard Toronto. InnVest charges the Partnership an asset management fee which is included in 'Other income and expense, net' in the condensed interim consolidated statements of net loss and comprehensive loss. The REIT eliminates its 33% share of management fees it charges the CYM Partnership against 'Share of income from joint venture'. For the three months ended March 31, 2016, this amounted to $14 (2015 – $nil).

The hotel is encumbered by mortgage debt of approximately $54,100 which is the sole responsibility of KingSett. KingSett has provided InnVest with an indemnity for any loss to InnVest associated with this debt.

The CYM Partnership has a commitment to complete certain capital expenditures under the licence and royalty agreement with Marriott Hotels Ltd.

Presented below are the amounts included in the financial statements of the CYM Partnership (adjusted where the accounting policies between the CYM Partnership and the REIT differ):

	March 31, 2016	December 31, 2015
Non-current assets	**$ 108,986**	$ 102,849
Current assets	**2,528**	1,845
Cash	**2,598**	4,428
Total assets	**114,112**	109,122
Current liabilities	**(4,563)**	(4,522)
Net assets	**$ 109,549**	$ 104,600
InnVest 33.3% share of net assets	**$ 36,515**	$ 34,866
Acquisitions costs	**$ 957**	$ 957
Investment in CYM Partnership	**$ 37,472**	$ 35,823

Summarized income statement

	Three months ended March 31, 2016
Revenues	$ 5,626
Hotel property expenses	(5,561)
Gross operating profit	65
Depreciation and amortization	(218)
Net loss	(153)
InnVest 33.3% share of net loss	$ (51)

INVESTMENT IN CHC

InnVest holds a 50% interest in CHC, a separate legal entity. CHC's registered office is at 5090 Explorer Drive, Suite 500, Mississauga, Ontario L4W 4T9. InnVest's investment in CHC is classified as a joint venture. InnVest accounts for its investment in CHC using the equity method.

Related party transactions occur between InnVest and CHC. These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties. As at March 31, 2016, the related party balances with CHC are included in accounts payable in the amount of $113 (December 31, 2015 – $80).

InnVest's Choice branded hotels pay franchise fees to CHC in accordance with a master franchise agreement. These fees are recorded by CHC as franchise revenue. The REIT eliminates its 50% share of franchise revenue arising from payments made by InnVest's Choice-branded hotels to CHC against 'Operating expenses'. For the three months ended March 31, 2016, this amounted to $138 (2015 – $161).

Summarized financial information below represents amounts presented in CHC's financial statements, as adjusted to comply with IFRS.

	March 31, 2016	December 31, 2015
Non-current assets	$ 597	$ 585
Current assets	4,695	4,498
Cash	6,498	7,847
	11,790	12,930
Current liabilities	(10,713)	(11,671)
Net assets	$ 1,077	$ 1,259
InnVest 50% share of net assets in CHC	$ 539	$ 630

	Three months ended March 31, 2016
Revenues	$ 5,833
Expenses	(3,637)
Net income before depreciation and income tax expense	2,196
Depreciation	(53)
Net income before income tax expense	2,143
Income tax expense	(240)
Net income	$ 1,903
Dividends declared and royalites paid	$ (2,087)
InnVest's 50% share of net income	$ 952
InnVest's 50% share of dividends and royalties	$ (1,043)

6. INVESTMENT IN ASSOCIATE

On February 2, 2015, InnVest and an affiliate of KingSett acquired an aggregate of 80% interest in the Fairmont Royal York Hotel in Toronto, Ontario (the "Royal York Hotel") whereby Ivanhoé Cambridge retained a 20% interest in the hotel (collectively, the "Royal York Partnership"). InnVest owns a 20% interest in the Royal York Partnership.

InnVest exercises significant influence over its investment in the Royal York Partnership and accounts for its investment using the equity method.

Under the Royal York Partnership, each partner has minimum capital commitments to fund capital expenditures and working capital needs for the Royal York Hotel over a specified period of time. As at March 31, 2016, InnVest's remaining proportionate capital commitment approximated $13,700 (December 31, 2015 – $13,700).

Opening balance, beginning of year	**$ 19,983**
Add:	
InnVest's 20% share of the Royal York Partnership's net loss	**(343)**
Closing balance, March 31, 2016	**$ 19,640**

Presented below are the amounts included in the financial statements of the Royal York Partnership (adjusted where the accounting policies between the Royal York Partnership and the REIT differ):

	March 31, 2016	December 31, 2015
Non-current assets	**$ 223,635**	$ 221,172
Current assets	**5,510**	4,810
Cash	**3,947**	7,202
Total assets	**233,092**	233,184
Non-current liabilities	**$ 119,700**	$ 123,555
Current liabilities	**21,280**	15,802
Total liabilities	**140,980**	139,357
Net assets	**$ 92,112**	$ 93,827
InnVest's 20% share of net assets	**18,422**	18,765
Acquisition costs	**1,218**	1,218
Investment in Royal York Partnership	**$ 19,640**	$ 19,983

	Three months ended March 31, 2016
Revenues	**$ 28,588**
Hotel property expenses	**(26,785)**
Gross operating profit	**1,803**
Other expenses	
General and administrative	**(115)**
Depreciation and amortization	**(2,256)**
Interest expense	**(1,148)**
Net loss	**(1,716)**
InnVest's 20% share of net loss	**$ (343)**

7. BUSINESS COMBINATION

On February 2, 2016, InnVest acquired a 100% interest in the Ottawa Marriott Hotel ("Ottawa Marriott"). Ottawa Marriott is a full-service hotel located in downtown Ottawa. The purchase price includes the following:

Purchase price at closing (net of $200 credit from vendor)	$ 114,800
Contingent consideration	(884)
Prepaid management fee	(1,686)
Adjusted purchase price	$ 112,230

A guarantee arrangement between the parties provides for the payment by the vendor to InnVest of a contingent consideration receivable in cash should minimum income levels not be achieved in 2016 and 2018. For each of these two years, the maximum amount that InnVest will receive is $500 which management considers as probable. The amount of $884 represents the fair value of this consideration, using a discount rate of 8.5% and has been allocated to 'Prepaids and other assets' on the condensed interim balance sheet. This financial asset is remeasured to fair value each reporting period.

The arrangement also provides for subordination of management fees should minimum income levels not be achieved. Since the hotel management agreement was not assumed as part of the acquisition and was negotiated concurrently with the acquisition, a portion of the purchase price paid at closing, totaling $1,686, has been allocated to 'Prepaids and other assets' on the condensed interim balance sheet and is accounted for separate from the business combination. The asset recognized relates to the value of reduced management fees reflected in the purchase price and is being amortized to management fee expense over the period of the benefit.

The acquisition was funded with a combination of cash on hand and a temporary bridge facility. On March 31, 2016, InnVest completed the mortgage financing for the property (Note 10).

The results of operations of the Ottawa Marriott since the date of acquisition have been included in the condensed interim statement of net loss and comprehensive loss. Ottawa Marriott contributed revenue of $4,833 and a net loss, after acquisition costs, of $1,524 from the date of acquisition. If the Ottawa Marriott had been consolidated from January 1, 2016, the condensed interim consolidated statement of net loss would have included revenue of $6,651 and a net loss, after acquisition costs, of $1,506.

InnVest incurred acquisition related costs of $2,218, which have been expensed in 'Other expense and (income), net' in the condensed interim consolidated statements of net loss and comprehensive loss (Note 21). The transaction was accounted for as a business combination under IFRS 3, "Business Combinations". InnVest has a commitment to complete certain capital expenditures under the licence and royalty agreement.

The following table summarizes the allocation of the purchase price to the fair value of each major asset acquired and net liability assumed as at the acquisition date. The fair value of the assets acquired are provisional. As a result, further adjustments to the purchase price allocation may be required.

Land and building (Note 8)	$ 88,002
Building finishes (Note 8)	8,357
Electrical and mechanical (Note 8)	11,871
Furniture, fixtures and equipment (Note 8)	4,000
Identifiable assets acquired	112,230
Working capital, net	(320)
Net assets acquired and cash consideration paid	$ 111,910

8. HOTEL PROPERTIES

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2016	$ 902,101	$ 358,116	$ 205,788	$ 117,707	$ 1,583,712
Derecognition of assets	–	–	–	(3,697)	(3,697)
Acquisition (Note 7)	88,002	8,357	11,871	4,000	112,230
Additions	1,078	11,505	1,539	3,814	17,936
Fair value of decommissioning and restoration provision (Note 12)	416	–	–	–	416
Reclass to assets held for sale (Note 3)	(7,670)	(2,390)	(1,438)	(1,936)	(13,434)
Balance at March 31, 2016	983,927	375,588	217,760	119,888	1,697,163
Accumulated depreciation					
Opening balance at January 1, 2016	99,616	208,662	36,122	57,888	402,288
Derecognition of assets	–	–	–	(3,697)	(3,697)
Depreciation	5,067	11,579	1,796	3,410	21,852
Reclass to assets held for sale (Note 3)	(838)	(2,111)	(297)	(2,030)	(5,276)
Balance at March 31, 2016	103,845	218,130	37,621	55,571	415,167
Carrying value, March 31, 2016	**$ 880,082**	**$ 157,458**	**$ 180,139**	**$ 64,317**	**$ 1,281,996**

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2015	$ 882,725	$ 348,027	$ 206,711	$ 113,159	$ 1,550,622
Derecognition of assets	–	–	–	(9,312)	(9,312)
Acquisition	32,431	4,383	3,756	3,628	44,198
Additions	6,514	17,086	4,324	13,896	41,820
Fair value of decommissioning and restoration provision	1,333	–	–	–	1,333
Reclass to assets held for sale (Note 3)	(18,725)	(11,067)	(8,907)	(3,581)	(42,280)
Write-down of hotel properties to recoverable amount	(2,177)	(313)	(96)	(83)	(2,669)
Balance at December 31, 2015	902,101	358,116	205,788	117,707	1,583,712
Accumulated depreciation					
Opening balance at January 1, 2015	83,060	171,048	31,339	55,032	340,479
Derecognition of assets	–	–	–	(9,312)	(9,312)
Depreciation	19,878	44,539	6,898	14,990	86,305
Reclass to assets held for sale (Note 3)	(3,322)	(6,924)	(2,115)	(2,821)	(15,182)
Balance at December 31, 2015	99,616	208,663	36,122	57,889	402,290
Carrying value, December 31, 2015	**$ 802,485**	**$ 149,453**	**$ 169,666**	**$ 59,818**	**$ 1,181,422**

The depreciation expense has been included in the line item 'Depreciation and amortization' in the condensed interim consolidated statements of net loss and comprehensive loss.

The land amount included in land, building and leaseholds is $174,488 at March 31, 2016 (December 31, 2015 – $161,282). This amount is not depreciated. During the three months ended March 31, 2016, land totalling $15,575 was acquired. Hotel properties at March 31, 2016 include $2,737 relating to leased assets (December 31, 2015 – $2,889).

Impairment review during the period

Each reporting period, InnVest performs a review for indicators of impairment in respect of its hotel properties. If an impairment indicator is identified, InnVest determines the recoverable amount of the individual hotel property as the higher of value-in-use and fair value less costs to sell. Value-in-use is based on a discounted cash flow approach whereas fair value less costs to sell is determined giving consideration to comparable sales transactions and price per room metrics.

During the three months ended March 31, 2016, InnVest's review did not result in any impairment (2015 – $nil).

9. INTANGIBLE ASSETS

	Licence Contracts	Franchise Rights	Customer Relationships	Total
Cost				
Opening balance at January 1, 2016	$ 26,320	$ 2,716	$ 814	$ 29,850
Additions	–	–	–	–
Balance at March 31, 2016	26,320	2,716	814	29,850
Accumulated amortization				
Opening balance at January 1, 2016	17,679	2,174	68	19,921
Amortization	329	53	27	409
Balance at March 31, 2016	18,008	2,227	95	20,330
Carrying value, March 31, 2016	**$ 8,312**	**$ 489**	**$ 719**	**$ 9,520**

	Licence Contracts	Franchise Rights	Customer Relationships	Total
Cost				
Opening balance at January 1, 2015	$ 26,320	$ 2,492	$ –	$ 28,812
Additions	–	320	814	1,134
Reclass to assets held to sale	–	(96)	–	(96)
Balance at December 31, 2015	26,320	2,716	814	29,850
Accumulated amortization				
Opening balance at January 1, 2015	16,363	1,955	–	18,318
Amortization	1,316	219	68	1,603
Balance at December 31, 2015	17,679	2,174	68	19,921
Carrying value, December 31, 2015	**$ 8,641**	**$ 542**	**$ 746**	**$ 9,929**

The amortization expense has been included in the line item 'Depreciation and amortization' in the condensed interim consolidated statements of net loss and comprehensive loss.

10. LONG-TERM DEBT

	March 31, 2016	December 31, 2015
Mortgages payable	**$ 772,398**	$ 739,626
Subordinated term loan	**50,000**	50,000
Operating line	**124,700**	15,000
Bridge loan	**10,000**	–
	957,098	804,626
Reclass to liabilities related to assets held for sale (Note 3)	**–**	(9,444)
	957,098	795,182
Less debt issuance costs	**(11,801)**	(11,803)
Total long-term debt	**945,297**	783,379
Less current portion	**(103,611)**	(62,963)
Net long-term debt – non-current	**$ 841,686**	$ 720,416

Substantially all of InnVest's assets have been pledged as security under debt agreements. At March 31, 2016, long-term debt had a weighted average interest rate of 4.9% (December 31, 2015 – 5.0%) and a weighted average effective interest rate of 5.6% (December 31, 2015 – 5.6%). The long-term debt is repayable in average monthly payments of principal and interest totalling $5,435 (December 31, 2015 – $4,812) and matures at various dates from May 31, 2016 to August 1, 2025.

Mortgages payable

InnVest has access to a $20,000 loan facility to fund 65% of capital expenditures incurred at certain of its hotels. At March 31, 2016, InnVest had remaining capacity on the facility of $3,721 (December 31, 2015 – $3,721).

On March 31, 2016, InnVest completed a new 7-year financing on the Ottawa Marriott Hotel for $54,400 at a fixed interest rate of 3.87% with a U.S. financial institution.

Subordinated term loan

InnVest has a credit agreement with an affiliate of KingSett (the "Credit Agreement") for a $50,000 subordinated term loan facility (the "Term Loan"). The Term Loan is outstanding for a four-year term ending April 2018, bears interest at 8.75% per annum and is secured by a general security agreement.

In connection with the Term Loan, a portion of the interest payments can be paid in units if mutually agreed upon by KingSett and InnVest. During the three months ended March 31, 2016 and 2015, no units were issued in satisfaction of the interest payments.

Operating line

InnVest has an operating, acquisition and capital expenditure line ("Operating Line") of up to $100,000 with two Canadian chartered banks which expires on June 5, 2017. The Operating Line is secured by 24 hotel properties. The amount of the Operating Line is subject to a mortgageability test which is based on the lesser of 50% of the appraised value and the operating results of the secured properties, calculated for the immediately preceding four quarters. During the quarter, the Operating Line was temporarily increased by $30,000 with a maturity date of October 27, 2016 to help facilitate the acquisition of the Ottawa Marriott Hotel, to continue planned capital expenditures and to bridge the sale of non-core hotels. The Operating Line bears interest at either the Canadian bank prime rate plus 1.75% or the Canadian Bankers' Acceptance rate plus 2.75%.

As at March 31, 2016, the amount outstanding on the Operating Line was $124,700 (December 31, 2015 – $15,000) and had a remaining capacity of $1,072. An amount of $4,228 was reserved for letters of credit (Note 16).

Bridge loan

InnVest partially funded the Ottawa Marriott Hotel through a bridge loan for $52,000. On March 31, 2016, $42,000 of the bridge loan was repaid from the proceeds of the long-term financing on the hotel property. As at March 31, 2016, the bridge loan amount is $10,000. The bridge loan matures on May 31, 2016 and bears interest at either the Canadian bank prime rate plus 3.5% or the Canadian Bankers' Acceptance rate plus 4.5%.

Scheduled repayments of long-term debt are as follows:

	Regular Amortization	Due on Maturity	Total
2016	13,695	85,495	99,190
2017	15,453	258,290	273,743
2018	13,370	55,256	68,626
2019	11,003	138,567	149,570
2020	8,904	85,414	94,318
2021 and thereafter	26,143	245,508	271,651
	$ 88,568	**$ 868,530**	**$ 957,098**

The estimated fair value of InnVest's long-term debt at March 31, 2016 was approximately $969,463 (December 31, 2015 – $819,462). This estimate was determined by discounting expected cash flows at interest rates that reflect current market conditions for debt with similar terms, maturities and credit risk.

Long-term debt includes $219,955 (December 31, 2015 – $100,808) which is subject to floating interest rates. Annual interest expense will increase by $2,200 for every 1% increase in the base Bankers' Acceptance rate.

Interest expense on long-term debt and convertible debentures are considered operating items in the condensed interim consolidated statements of cash flows.

11. CONVERTIBLE DEBENTURES

The convertible debentures outstanding are as follows:

Debenture	Face Amount	Maturity Date	Coupon Interest Rate	Interest Rate Including Issuance Costs	Effective Interest Rate(1)	Conversion Strike Price	**Outstanding Principal March 31, 2016**	Outstanding Principal December 31, 2015
Series E	75,000	September 30, 2017	6.00%	6.79%	7.75%	$ 8.00	**74,995**	74,995
Series F	50,000	March 30, 2018	5.75%	6.57%	7.40%	$ 9.45	**49,975**	49,975
Series G	86,250	March 31, 2019	6.25%	6.25%	8.25%	$ 7.50	**86,250**	86,250
Total convertible debentures							**$ 211,220**	$ 211,220

(1) Includes issuance costs and conversion option allocation.

The net proceeds received from the issuance of each convertible debenture have been split between a financial liability element and the conversion option component, representing the value attributable to the option to convert the financial liability into units of InnVest. InnVest has separated the conversion option component for each of its series of convertible debentures and measures such component at fair value at each reporting date (Note 14). The conversion option feature of the convertible debentures is recorded as a liability under 'Other liabilities' in the condensed interim consolidated balance sheets.

	March 31, 2016	December 31, 2015
Convertible debentures	**$ 211,220**	$ 211,220
Financing costs	**4,521**	3,748
Less allocation of conversion option value	**(12,320)**	(12,320)
Convertible debentures	**$ 203,421**	$ 202,648

The fair value of InnVest's convertible debentures, estimated based on the market price for each series of convertible debentures as at March 31, 2016, is $214,287 (December 31, 2015 – $211,401).

The scheduled convertible debentures maturities are as follows:

	Due on Maturity
2016	$ –
2017	74,995
2018	49,975
2019	86,250
2020	–
	$ 211,220
Financing costs and allocation of conversion option value	(7,799)
	$ 203,421

12. PROVISIONS

	March 31, 2016	December 31, 2015
Opening balance, beginning of period	$ 11,936	$ 9,359
Increase (decrease) to 'Hotel properties':		
Other	–	194
Effect of changes in the discount rate (Note 8)	416	1,333
Contingency provision	–	1,050
Ending balance, end of period	$ 12,352	$ 11,936

InnVest's provisions primarily relates to InnVest's decommissioning and restoration obligations related to the estimated future cost of environmental obligations for certain properties. InnVest intends to settle the obligations at the end of the expected useful life of the hotel properties. At March 31, 2016, the liability has been discounted at a rate of 2.00% based on the Bank of Canada long-term bond yields (December 31, 2015 – 2.15%). Upon the initial recognition of the liability, the decommissioning and restoration obligation was capitalized to buildings and is being amortized over the remaining useful life. The effects of the change to the discount rate are capitalized to buildings and amortized over the remaining useful life.

13. OTHER LONG-TERM OBLIGATIONS

	March 31, 2016	December 31, 2015
Finance lease	$ 637	$ 637
Other lease obligations	237	242
Employee retiring allowance	1,094	1,132
Employee benefit plans	2,216	2,216
Total other long-term obligations	$ 4,184	$ 4,227
Less current portion	(220)	(203)
Other long-term obligations – non-current	$ 3,964	$ 4,024

InnVest has a finance lease relating to one Ontario hotel with a lease term through 2018. InnVest has the option to purchase the hotel at a discounted amount at the conclusion of the lease. The fair value of the lease liability is approximately equal to its carrying amount.

Defined benefit pension plans and other employment benefits

InnVest is responsible to provide employee retirement allowances to certain unionized employees at a limited number of its hotels. Liabilities are recorded for employee retirement allowance benefits using actuarial valuations.

InnVest has defined benefit pension plans which are for specific employees of four hotels and are closed plans.

14. OTHER LIABILITIES

	March 31, 2016	December 31, 2015
Convertible debenture holders' conversion option (Note 23)	**$ 1,468**	$ 1,957
Deferred Units	**1,855**	1,597
Unvested executive compensation	**1,130**	1,070
Deferred hotel management incentive	**971**	983
Other liabilities	**$ 5,424**	$ 5,607

Convertible debenture holders' conversion option

InnVest has separated the conversion option component for each of its series of convertible debentures which are presented as 'Other liabilities'. InnVest measures the conversion option component at fair value at each reporting date which is derived based on the volatility of InnVest units' market price, market interest rates as well as management's judgment relating to interest rate spreads for instruments of similar terms and risks.

Deferred Unit Plan

InnVest's trustees participate in a compensation plan involving the grant of deferred units. The plan entitles trustees, at their option, to receive up to 100% of their annual retainer in the form of deferred units. InnVest matches, on a one-for-one basis, the number of deferred units elected to be received by the Trustee. Therefore the value of deferred units granted is equal to the trustee's election multiplied by two.

The number of deferred units granted is based on the five-day weighted average price of units on the day preceding the award date. Deferred units granted entitle the holder to also accumulate deferred units equal to the monthly cash distributions, assuming the reinvestment of the distribution into units.

The number of deferred units granted result in the award of units on a one-for-one basis upon the trustee's departure from the Board or, at the Board's discretion, may be settled in cash.

The benefit resulting from the grant of deferred units under this plan is recorded in 'Corporate and administrative expenses' when awarded. Deferred units granted are initially presented in 'Other liabilities' based on the fair value of the units on the date of grant and are subsequently remeasured at each reporting date at their fair value with changes in the carrying amount recognized in 'Corporate and administrative' expenses in the condensed interim consolidated statements of net loss and comprehensive loss.

To the extent that units are issued (following a trustee's departure from the Board), the liability is reclassified to 'Unitholders' equity' at the then-current fair value based on the market price of the REIT's units, payment is made and the liability is extinguished.

Executive compensation plan

The senior executives participate in an incentive plan that involves the grant of InnVest units which vest over time. Units granted entitle the holder to also accumulate units equal to the monthly cash distributions, assuming the reinvestment of the distribution into units.

Upon vesting, the payment will be satisfied through the issuance of units. Unvested units are presented at their fair value. Upon issuance of units (following the satisfaction of all vesting conditions), the liability is reclassified to 'Unitholders' equity' at the then-current fair value based on the market price of the REIT's units.

Deferred hotel management incentive

In conjunction with entering into a hotel management agreement and completing specific capital projects at one hotel, the REIT received a lump sum payment which is deferred and amortized over the term of the hotel management agreement.

15. CAPITAL MANAGEMENT

Refer to InnVest's consolidated financial statements for the year ended December 31, 2015 for an explanation of InnVest's capital management policy.

At March 31, 2016, InnVest's primary contractual obligations consisted of long-term mortgage obligations and convertible debentures. InnVest is not permitted to exceed certain financial leverage amounts under the terms of the DOT. InnVest is permitted to hold indebtedness excluding convertible debentures up to a level of 60% of gross asset value. Further, InnVest is permitted to have indebtedness and convertible debentures up to a level of 75% of gross asset value. Indebtedness is computed as of the last day of each financial period excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and, for greater certainty, deferred income tax liability. InnVest is further limited by an operating line covenant which limits total indebtedness including convertible debentures up to 65% of gross asset value. Management's policy is not to exceed this leverage limit at any time during the year. Under the terms of the DOT, individual property mortgages (or mortgages on a pool of properties) cannot exceed 75% of the fair value of the underlying property.

At March 31, 2016, InnVest's leverage excluding and including convertible debentures was 51.0% and 62.3%, respectively, calculated as follows:

		March 31, 2016		December 31, 2015
Total assets per consolidated balance sheets		**$ 1,432,302**		$ 1,314,052
Accumulated depreciation and amortization		**444,239**		430,502
Gross asset value		**$ 1,876,541**		$ 1,744,554
Book value of mortgages and other debt (Note 10)[1]	**$ 957,098**	**51.0%**	$ 804,626	46.1%
Convertible debentures (Note 11)[2]	**211,220**	**11.3%**	211,220	12.1%
Total indebtedness	**$ 1,168,318**	**62.3%**	$ 1,015,846	58.2%

(1) Adjusted to eliminate financing issuance costs.
(2) Adjusted to face value.

The DOT also includes guidelines that limit capital expended to, among other items, the following:

(a) Direct and indirect investments in real property on which hotels are situated and the hotel business conducted thereon, primarily in Canada, and in entities whose activities consist primarily of franchising hotels;

(b) Temporary investments held in cash, deposits with a Canadian chartered bank or trust company, short-term government debt securities or in money market instruments of, or guaranteed by, a Schedule 1 Canadian bank, short-term commercial paper, notes, bonds of other debt securities of a Canadian entity having a rating of at least R-1 (Mid) by Dominion Bond Rating Service or A-1 (Mid) by Standard & Poor's Corporation maturing prior to one year from the date of issue;

(c) Investments in mortgages or mortgage bonds, where the related security is a first mortgage on income producing real property which otherwise complies with (a) above and is subject to certain leverage limits and debt service coverage. The aggregate value of such investments shall not exceed 20% of unitholders' equity; and

(d) Investments other than those summarized in (a) through (c) are limited to 15% of InnVest's Unitholders' equity plus accumulated depreciation.

InnVest is in compliance with these guidelines.

InnVest maintains an Operating Line with a syndicate of two Canadian chartered banks with the following covenants:

		Threshold	March 31, 2016	Capacity[1]	December 31, 2015
(i)	Total indebtedness (including convertible debetures) as a percentage of gross assets	<65%	**62.3%**	**$ 51,434**	58.2%
(ii)	Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense[2]	>1.8X	**2.5X**	**$ 41,219**	2.6X
(iii)	Trailing 12 months consolidated EBITDA to consolidated debt service[3]	>1.5X	**1.9X**	**$ 31,312**	1.9X
(iv)	Unitholders' equity plus accumulated depreciation less 'Intangible assets'	>$300,000	**$ 623,475**	**$ 323,475**	$ 648,280

(1) Reflects additional capacity (for debt, EBITDA or unitholders' equity, as applicable) before exceeding the covenant threshold at March 31, 2016.
(2) Consolidated interest expense excludes the non-cash portion of mortgage interest expense and the non-cash portion of convertible debenture interest and accretion.
(3) Consolidated debt service includes consolidated interest expense plus regular principal payments of $17,745.

16. FINANCIAL INSTRUMENTS

Refer to InnVest's consolidated financial statements for the year ended December 31, 2015 for an explanation of InnVest's risk management policy as it relates to financial instruments.

The REIT's contractual cash flows for the next five years and thereafter are as follows:

	2016	2017	2018	2019	2020	2021 and Thereafter	Contractual Cash Flows(1)
Accounts payable and accrued liabilities	$ 67,810	$ –	$ –	$ –	$ –	$ –	$ 67,810
Mortgage and subordinated term loan payable							
– principal(2)	59,190	179,043	68,626	149,570	94,318	271,651	822,398
– interest(3)	34,378	31,467	23,880	17,263	13,714	37,811	158,513
Operating line							
– principal	30,000	94,700	–	–	–	–	124,700
– interest	3,806	2,419	–	–	–	–	6,225
Bridge loan							
– principal	10,000	–	–	–	–	–	10,000
– interest	103	–	–	–	–	–	103
Convertible debentures							
– principal	–	74,995	49,975	86,250	–	–	211,220
– interest	6,382	12,764	6,827	2,695	–	–	28,668
Long-term leases	1,543	2,057	2,061	2,047	1,973	71,597	81,278
Total	$ 213,212	$ 397,445	$ 151,369	$ 257,825	$ 110,005	$ 381,059	$ 1,510,915

(1) Contractual cash flows include principal and interest payments.
(2) Mortgage principal includes regular amortization and repayments at maturity.
(3) Interest for floating rate debt is based on interest rates prevailing at March 31, 2016.

CONTINGENT OBLIGATIONS

InnVest and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business.

Fair values

The fair values of InnVest's current financial assets and current financial liabilities approximate their recorded values at March 31, 2016 and December 31, 2015 due to their short-term nature.

The fair value of InnVest's long-term debt is greater than the carrying value by approximately $12,364 at March 31, 2016 (December 31, 2015 – $14,836) due to changes in interest rates since the dates on which the individual mortgages were arranged. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms, credit risks and conditions.

The fair value of InnVest's convertible debentures is greater than the carrying value by approximately $9,398 at March 31, 2016 (December 31, 2015 – $6,796). The fair value of convertible debentures is based on the market price for each series of convertible debentures as at each reporting date.

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

			March 31, 2016			December 31, 2015
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
Financial Assets:						
Acquisition related contingent consideration	**$ –**	**$ 884**	**$ 884**	$ –	$ –	$ –
Financial Liabilities:						
Convertible debenture holders' conversion option	**–**	**(1,468)**	**(1,468)**	–	(1,957)	(1,957)
Deferred Units	**(1,855)**	**–**	**(1,855)**	(1,597)	–	(1,597)
Unvested executive compensation	**(1,130)**	**–**	**(1,130)**	(1,070)	–	(1,070)
Total financial liabilities	**$ (2,985)**	**$ (584)**	**$ (3,569)**	$ (2,667)	$ (1,957)	$ (4,624)

There were no transfers between Level 1 and Level 2 fair value measurements during the periods presented and no transfer into and out of Level 3. There were no financial instruments measured at Level 2 at any of the dates presented.

The fair value of acquisition-related contingent consideration is determined using unobservable inputs. These inputs include the estimated amount and timing of projected cash flows, the probability of success (achievement of the contingent event) and the risk-adjusted discount rate used to present value the expected cash flows. Subsequent to the acquisition date, at each reporting period, the financial asset is remeasured at current fair value with changes recorded in earnings. Acquisition-related contingent consideration is measured at fair value on a recurring basis using unobservable inputs; hence these instruments represent Level 3 measurements within the above-defined fair value hierarchy.

There were no changes in the fair value of the financial asset from the date of acquisition fair value of $884 to March 31, 2016.

The fair market value of convertible debenture holders' conversion options is estimated using a Black-Scholes valuation model. InnVest uses the following methods to determine its underlying assumptions: expected volatilities are based on the historical volatilities of the monthly closing price of InnVest's unit prices; the expected term of the conversion option is based on the remaining term of each series of debentures; the risk-free interest rate is based on the Government of Canada Bond yield with similar life terms to the expected life of the option; and the expected dividend yield is based on the current annual dividend amount divided by InnVest's unit price on the issuance date of the convertible debenture.

The following key assumptions were used in the Black-Scholes valuation model:

	March 31, 2016	December 31, 2015
Expected volatility	**27.0%**	27.0%
Expected distribution yield	**7.6%**	8.0%

The fair market value of convertible debenture holder's conversion options might result in a significantly higher or lower fair value due to a change in the unobservable inputs used.

The following table reconciles movements in convertible debenture holders' conversion option, which are financial instruments classified as Level 3 during the periods presented.

	March 31, 2016	December 31, 2015
Balance at the beginning of the period	**$ 1,957**	$ 9,931
Fair value gain included in net loss (Note 23)	**(489)**	(5,019)
Change in fair value of Series D conversion option resulting from redemption and conversions	**–**	(2,955)
Balance at end of the period	**$ 1,468**	$ 1,957

Fair value gains and losses are included in 'Unrealized gain on liabilities presented at fair value' (Note 23).

Letters of credit

As at March 31, 2016, InnVest has letters of credit totalling $4,228 (December 31, 2015 – $8,557). The letters of credit outstanding relate to security deposits for various utility companies, liquor licences, additional security for the pension liabilities and for commitments to complete capital expenditures as required under franchise agreements.

17. UNITS OUTSTANDING

InnVest is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from InnVest. Per the DOT, units cannot be issued from treasury unless the Trustees consider it not to be dilutive to ensuing annual distributions of distributable income to existing unitholders.

Units issued and outstanding:

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Units	**$**	Units	$
Opening balance, beginning of period	**133,768,240**	**850,467**	116,280,294	758,863
Issuance of units pursuant to public offering	**–**	**–**	5,742,110	34,544
Units issued under distribution reinvestment plan	**411,873**	**2,004**	49,818	284
Units vested under executive plan	**42,790**	**220**	131,140	838
Balance, end of period	**134,222,903**	**852,691**	122,203,362	794,529

Distribution Reinvestment Plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their monthly distributions automatically reinvested in additional InnVest units. Under the DRIP, InnVest has discretion to purchase units on the open market or to be issued from treasury. If InnVest elects to issue units from treasury, unitholders who have elected to participate in the DRIP will receive 3% bonus units in addition to any units issued to them under the DRIP.

Executive Compensation Plan

The senior executives participate in the executive compensation plan under which InnVest units are granted by the Board of Trustees from time to time. Granted units vest not more than four years from the effective date of grant. InnVest has reserved a maximum of 1,000,000 units for issuance under the plan. The balance in this reserve account at March 31, 2016 is 252,733 units (December 31, 2015 – 432,912 units).

A unit granted through the plan entitles the holder to receive, on the vesting date, the then-current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into InnVest units. The payment will be satisfied through the issuance of units. The benefit resulting from the issuance of unvested units under this plan and any fair value adjustments on the liability are recorded in 'Corporate and administrative' expense in the condensed interim consolidated statements of net loss and comprehensive loss.

At March 31, 2016, there were 269,316 unvested executive units granted (December 31, 2015 – 101,927) under the plan. The unvested units are presented as 'Other liabilities'.

Separately, as part of his inducement, the President and CEO was awarded an equity grant effective on his start date, January 26, 2015, of 400,000 units of which 80,000 units vested immediately and the remaining 320,000 units vest at a rate of 80,000 units ('tranche") per year over a four-year period. In 2015, 80,000 units were awarded to the President and CEO. Under the terms of the inducement, the President and CEO is entitled to be awarded an additional 80,000 units in 2016. During the three months ended March 31, 2016, 30,000 units were awarded to the President and CEO with the remaining 50,000 units awarded in April 2016.

Total units vested and awarded under the executive unit plans for the three months ended March 31, 2016 were 42,790 units including 30,000 units awarded to the current President and CEO in January 2016.

The following table summarizes the status of the executive compensation plan at March 31, 2016, excluding granted units which have fully vested and/or were cancelled:

	Unvested (Vested) Executive Units, Net	Unvested (Vested) Units Accumulated from Distributions, Net	Unvested (Vested) Total Units, Net	Fair Value per Unit at Grant Date
2012 – granted	7,000	2,086	9,086	$ 4.50
Vested in 2015	(3,500)	(882)	(4,382)	
Vested in 2016	(3,500)	(1,204)	(4,704)	
2013 – granted	13,500	2,827	16,327	$ 4.65
Vested in 2016	(6,750)	(1,336)	(8,086)	
2014 – granted	70,672	4,718	75,390	$ 5.30
Vested in 2015	(40,000)	–	(40,000)	
2015 – granted	146,323	3,468	149,791	$ 5.98
Vested in 2015	(102,528)	–	(102,528)	
2016 – granted	178,422	–	178,422	$ 5.13
	259,639	9,677	269,316	

18. PER UNIT INFORMATION

The net loss and weighted average number of units for the purposes of diluted earnings per unit are as follows:

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Net Loss	**Weighted Average Units**	Net Loss	Weighted Average Units
Basic	**$ (29,274)**	**134,063,906**	$ (23,233)	118,646,773
Diluted	**$ (29,274)**	**134,428,652**	$ (23,233)	118,646,773

The following potential units are anti-dilutive and are therefore excluded from the weighted average number of units for the purposes of diluted earnings per unit.

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Convertible debentures	**26,162,734**	30,295,030

For the three months ended March 31, 2016, InnVest declared distributions to unitholders totalling $13,401 (2015 – $11,932) at $0.0333 distributions per unit monthly (2014 – $0.0333 per unit monthly). Declared distributions include cash distributions and distributions arising from the DRIP (Note 17). Subsequent to the end of the quarter, InnVest declared $4,474 of distributions to unitholders to May 10, 2016.

19. CHANGES IN NON-CASH WORKING CAPITAL

Cash generated from (utilized in)	**Three Months Ended March 31, 2016**	Three Months Ended March 31, 2015
Accounts receivable	**$ (38)**	$ 482
Prepaid expenses and other assets	**314**	(2,370)
Accounts payable and other liabilities	**8,632**	(1,263)
Changes in non-cash working capital	**$ 8,908**	$ (3,151)

20. RELATED PARTY DISCLOSURES

KingSett Capital ("KingSett")
A trustee of InnVest has a direct or indirect controlling interest in KingSett. KingSett is considered a related party to InnVest as a result of its ability to exercise significant influence over InnVest. In 2014, an affiliate of KingSett provided InnVest with a $50,000 Term Loan (Note 10). Included in 'Accounts payable and accrued liabilities' are amounts owed to KingSett at March 31, 2016 totalling $372 (December 31, 2015 - $372).

An affiliate of KingSett is the land owner for one leasehold hotel owned by InnVest. The lease expires in 2088. For the three months ended March 31, 2016, InnVest paid $135 (2015 – $135) in lease payments related to this asset. Included in 'Accounts payable and accrued liabilities' are amounts owed to an affiliate of KingSett at March 31, 2016 totalling $45 (December 31, 2015 – $45).

KingSett with its 60% interest in the Royal York Partnership and 66.7% interest in the CYM Partnership, is the managing partner of both partnerships. InnVest has an Asset Management agreement with the partnerships for oversight of the hotel manager of the Royal York Hotel and Courtyard Toronto. InnVest as the hotel asset manager oversees the property's hospitality operations. No fees will be paid between KingSett and InnVest for services provided by each for the Royal York Hotel. Under the Courtyard Toronto asset management agreement, InnVest recorded $43 in asset management fees for the three months ended March 31, 2016.

Westmont Hospitality Group ("Westmont")
Westmont ceased being a related party in the first quarter of 2016 following the departure of a trustee from InnVest's board.

In 2015, InnVest paid Westmont for services under a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements"). For the three months ended March 31, 2015, fees charged by Westmont pursuant to the Agreements totalled $3,465.

21. OTHER EXPENSE (INCOME), NET

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Acquisition costs (Note 7)	**2,218**	–
Termination of royalty fee arrangement for joint CHC and InnVest licenced properties	**–**	(547)
Gain on redemption and amendment of convertible debentures, net	**–**	(196)
Asset management fee (Note 20)	**(43)**	–
Loss on sale of hotel properties, net		45
Other	**(24)**	(22)
	$ 2,151	$ (720)

22. REVERSAL OF WRITEDOWN

During the three months ended March 31, 2016, InnVest recorded the reversal of a previous impairment of $210 following the sale of one hotel (2015 – $nil).

23. UNREALIZED GAIN ON LIABILITIES PRESENTED AT FAIR VALUE

Fair value gains recorded are as follows:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Exchangeable units	**$ –**	$ (75)
Convertible debenture holders' conversion option	**(489)**	(1,097)
	$ (489)	$ (1,172)

24. SEGMENT INFORMATION

The management of InnVest's operations is organized in three segment categories based on the service and amenity characteristics of the hotels: Limited-service, Midscale and Upscale. In addition, given common economic patterns, operations are also reviewed across four Canadian geographical regions: Western, Ontario, Quebec and Atlantic. For each of the operating segments, the REIT's Chief Executive Officer reviews internal management reports on at least a quarterly basis.

Corporate overheads are not allocated to the operating segments. All key financing, investing and capital allocation decisions are centrally managed.

Geographical

REVENUES

Three months ended March 31, 2016	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 39,541**	**$ 43,895**	**$ 18,255**	**$ 10,269**	**$ 111,960**
Revenues					**$ 111,960**

Three months ended March 31, 2015	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 39,738	$ 39,319	$ 19,268	$ 11,562	$ 109,887
Other real estate properties					$ 179
Revenues					$ 110,066

GROSS OPERATING PROFIT

Three months ended March 31, 2016	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 4,732**	**$ 8,396**	**$ 1,764**	**$ (19)**	**$ 14,873**
Gross operating profit					**14,873**
Other expenses, net					**(44,147)**
Net loss					**$ (29,274)**

Three months ended March 31, 2015	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 7,251	$ 6,511	$ 1,753	$ (13)	$ 15,502
Other real estate properties					$ (156)
Gross operating profit					$ 15,346
Other expenses, net					(38,579)
Net loss					$ (23,233)

Hotel properties	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
March 31, 2016	**$ 537,506**	**$ 462,281**	**$ 152,143**	**$ 130,066**	**$ 1,281,996**
December 31, 2015	$ 535,318	$ 363,841	$ 154,340	$ 127,923	$ 1,181,422

Capital Expenditures	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Three months ended March 31, 2016					
Hotel properties	**$ 10,892**	**$ 1,699**	**$ 763**	**$ 4,582**	**$ 17,936**
Three months ended March 31, 2015					
Hotel properties	$ 5,219	$ 3,247	$ 1,202	$ 395	$ 10,063
Other real estate properties					$ 18
	$ 5,219	$ 3,247	$ 1,202	$ 395	$ 10,081

Market Segment

REVENUES

Three months ended March 31, 2016	**Limited Service**	**Midscale**	**Upscale**	**Total**
Hotel properties	**$ 24,456**	**$ 34,025**	**$ 53,479**	**$ 111,960**
Revenues				**$ 111,960**

Three months ended March 31, 2015	Limited Service	Midscale	Upscale	Total
Hotel properties	$ 25,053	$ 35,568	$ 49,266	$ 109,887
Other real estate properties				$ 179
Revenues				$ 110,066

GROSS OPERATING PROFIT

Three months ended March 31, 2016	Limited Service	Midscale	Upscale	Total
Hotel properties	**$ 5,782**	**$ 5,614**	**$ 3,477**	**$ 14,873**
Gross operating profit				**$ 14,873**
Other expenses, net				**$ (44,147)**
Net loss				**$ (29,274)**

Three months ended March 31, 2015	Limited Service	Midscale	Upscale	Total
Hotel properties	$ 6,297	$ 4,721	$ 4,484	$ 15,502
Other real estate properties				$ (156)
Gross operating profit				$ 15,346
Other expenses, net				$ (38,579)
Net loss				$ (23,233)

Hotel properties	Limited Service	Midscale	Upscale	Total
March 31, 2016	**$ 299,690**	**$ 278,240**	**$ 704,066**	**$ 1,281,996**
December 31, 2015	$ 305,949	$ 290,366	$ 585,107	$ 1,181,422

Capital Expenditures	Limited Service	Midscale	Upscale	Total
Three months ended March 31, 2016				
Hotel properties	**$ 455**	**$ 1,177**	**$ 16,304**	**$ 17,936**
Three months ended March 31, 2015				
Hotel properties	$ 1,078	$ 1,644	$ 7,341	$ 10,063
Other real estate properties				$ 18
Three months ended March 31, 2015	$ 1,078	$ 1,644	$ 7,341	$ 10,081

25. SUBSEQUENT EVENTS

Financing

On May 2, 2016, InnVest and KingSett completed a new 2 year financing on the Courtyard by Marriott Toronto for $82,000 at an interest rate at either (i) the Canadian bank prime rate plus 1.75% or (ii) the Canadian Bankers' Acceptance rate plus 2.75%. InnVest's portion of the financing amounted to $27,333 which will be used to pay down the bridge loan to $nil with the remaining balance applied to the operating line.

Acquisition of the REIT

On May 10, 2016, the REIT and Bluesky Hotels and Resorts Inc., ("Bluesky"), a privately-held Canadian company, announced that they have entered into an arrangement agreement pursuant to which Bluesky will acquire all the issued and outstanding units of InnVest for $7.25 in cash per unit, pursuant to a court-approved plan of arrangement (the "Arrangement"). The Arrangement has received the unanimous approval of the Board of Trustees of InnVest and has the full support of InnVest's management team.

InnVest will work with Bluesky in connection with the redemption of all of InnVest's outstanding convertible debentures.

The Arrangement will be subject to a number of customary conditions, including the approval of InnVest unitholders, and Canadian regulatory approvals, under the Investment Canada Act and the Competition Act.

The Arrangement will be considered by unitholders at the upcoming annual meeting to be held on June 28, 2016, and will require the approval of at least 66 2/3% of the votes cast by unitholders at the meeting.

The transaction is expected to close in the third quarter of 2016 following the receipt of all required regulatory approvals.

26. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were authorized for issue by the Board of Trustees of InnVest on May 10, 2016.

FAIRMONT HOTEL MACDONALD, EDMONTON

CORPORATE INFORMATION

CORPORATE OFFICE

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: INN.UN
Convertible Debentures:
INN.DB.E, INN.DB.F, INN.DB.G

REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of address, registered holdings, transfers and duplicate mailings should be directed to the following:

Computershare Trust
Company of Canada
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1
Phone: 1-800-564-6253
Fax: 1-866-249-7775

AUDITORS

Deloitte LLP
Toronto, Ontario

DISTRIBUTION REINVESTMENT PLAN

Unitholders may acquire units by reinvesting cash distributions without paying brokerage commissions or administrative charges. For general information concerning the Distribution Reinvestment Plan or for a change of address, please contact the transfer agent and registrar.

InnVest REIT holds one of Canada's largest hotel portfolios together with an interest in Choice Hotels Canada Inc., one of the largest franchisors of hotels in Canada. InnVest's portfolio comprises 109 hotels across Canada representing over 14,500 guest rooms operating under 18 internationally recognized brands.

RESERVATIONS

AUTOGRAPH COLLECTION HOTELS
1-844-324-1672
www.autographhotels.com

BEST WESTERN
1-800-780-7234
www.bestwestern.com

COMFORT INN
1-800-424-6423
www.choicehotels.com/comfort-inn

COURTYARD BY MARRIOTT
1-800-321-2211
www.courtyard.marriott.com

DELTA HOTELS
1-888-890-3222
www.deltahotels.com

FAIRMONT HOTELS & RESORTS
1-800-257-7544
www.fairmont.com

HILTON GARDEN INN
1-877-782-9444
www.hgi.com

HILTON HOTELS
1-800-445-8667
www.hilton.com

HOLIDAY INN
1-888-465-4329
www.holidayinn.com

HOLIDAY INN EXPRESS
1-888-465-4329
www.hiexpress.com

HOMEWOOD SUITES HOTELS
1-800-225-5466
homewoodsuites3.hilton.com

HYATT REGENCY
1-888-591-1234
www.hyatt.com

MARRIOTT
1-888-236-2427
www.marriott.com

QUALITY HOTEL, QUALITY SUITES
1-800-424-6423
www.choicehotels.ca

RADISSON
1-888-201-1718
www.radisson.com

SHERATON HOTELS & RESORTS
1-800-325-3535
www.starwoodhotels.com/sheraton

STAYBRIDGE SUITES HOTELS
1-877-660-8550
www.staybridge.com

TRAVELODGE
1-800-578-7878
www.travelodge.com

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Holiday Inn Express · Radisson · Best Western · Comfort BY CHOICE HOTELS · QUALITY BY CHOICE HOTELS · Travelodge

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