INNVEST

INNVEST REAL ESTATE INVESTMENT TRUST | QUARTERLY REPORT 2014

Q3 2014

An in-depth look at InnVest's financial results for the three and nine months ended September 30, 2014.

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Letter to Unitholders

Building upon our positive second quarter momentum, we drove continued high performance among all our key metrics during the third quarter, highlighted by same-hotel RevPAR growth of 7.8% and same-hotel GOP margin expansion of 190 basis points. The strength of these key performance measures substantiates the hard work that has been done to reposition the portfolio over the last two years.

Third Quarter Operating Highlights

- Same-hotel RevPAR improved 7.8%;
- Same-hotel GOP margins improved 190 basis points to 32.7%;
- GOP improved 1.8% to $48.2 million notwithstanding overall revenue declines of $12.7 million reflecting the sale of non-core hotels;
- Net income improved to $16.5 million or $0.161 per unit diluted (vs $13.9 million or $0.139 per unit diluted in 2013);
- FFO per unit improved to $0.278 per unit diluted (vs $0.270 in 2013);

Third Quarter Strategic Highlights

- Sold three non-core assets for aggregate gross proceeds of $16.4 million ($91.6 million year-to-date) and have commitments to sell five additional hotels for aggregate gross proceeds of over $44 million;
- Completed an offer to purchase and cancelled $28.8 million of its Series G convertible debentures, and amended certain terms for its remaining Series G convertible debentures; and
- Subsequent to the end of the quarter, entered into an agreement to acquire a 20% interest in the Fairmont Royal York Hotel in downtown Toronto.

Our long-term goal at InnVest is to out-perform, through all market cycles. That means having a portfolio that can out-perform and operating partners who can out-perform. In the third quarter, we began to see our portfolio and partners out-perform the national averages for RevPAR growth. These results give us confidence that in the long term, we can and will be the Canadian hotel company that leads in growth.

The hospitality industry is highly correlated to the economy. The economic and travel outlooks across Canada continue to be positive with further growth anticipated in 2015, driven by improving demand expectations and a low supply-growth outlook for new hotel inventory.

Through the end of 2014 and into 2015, we expect to continue executing our portfolio repositioning strategy of divesting of low-yielding assets and reinvesting proceeds generated both internally to undertake an extensive capital program to enhance our product offering at a number of hotels, as well as externally through selective asset acquisitions. While impacting near-term operating results caused by displacement, these targeted investments have, and are expected to continue to, improve the portfolio's competitive positioning and operating performance through increased occupancies and average daily rates over the longer term.

We are committed to enhancing unitholder alignment and growing unitholder value. Our strategy to reduce debt leverage (including reducing InnVest's reliance on dilutive convertible securities), reposition the portfolio and invest in core assets is expected to enhance the stability and growth of the portfolio's long-term cash flows and valuation.

Anthony Messina
President and Chief Executive Officer

Edward Pitoniak
Managing Director and Trustee

November 4, 2014

Management's Discussion and Analysis

INTRODUCTION

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust which owns a portfolio of hotels across Canada. The unaudited condensed interim 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 November 4, 2014.

The following MD&A is intended to assist readers in understanding InnVest, its history, business environment, strategies, performance and risk factors and includes a discussion of the results of operations and financial condition of InnVest for the three and nine months ended September 30, 2014, with a comparison to the results of operations and financial condition for the three and nine months ended September 30, 2013. The MD&A should be read in conjunction with the Interim Financial Statements of InnVest and the notes thereto as at September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013.

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. Please refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 20 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.

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 objectives, its strategies to achieve those objectives, assumptions and forecasts of future results from acquisitions 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 information currently available to management.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on InnVest's estimates and assumptions, which are subject to risks and uncertainties, including those described under "Risks and uncertainties" in this MD&A. 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 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 and maintain adequate liquidity; risks that deposits to vendors related to contemplated acquisitions by InnVest may not be refunded should InnVest fail to complete such purchases; extent of realized benefits from plans to internalize asset management functions; ability to refinance debt maturities as planned; ability to achieve lower debt leverage target; 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; 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; the effects of competition and pricing pressures, including impacts of 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; 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 this MD&A are made as of the date of this MD&A. Except as required by law, InnVest does not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

BUSINESS OVERVIEW

InnVest holds one of Canada's largest hotel portfolios together with a 50% interest in Choice Hotels Canada Inc. ("Choice Canada"), one of the largest franchisors of hotels in Canada. InnVest's portfolio is well diversified across hotel accommodation categories, brands, geography and customers.

Hotel Real Estate Owner

As at September 30, 2014, InnVest's portfolio comprised 112 hotel properties (13,867 rooms) operated under internationally recognized franchise brands. Almost 60% of InnVest's portfolio is made up of limited- and focused-service hotels, based on number of rooms. Full-service hotels, however, generate higher revenues per room given higher ADRs charged and greater ancillary services sold. As a result, full-service hotels in the portfolio accounted for approximately 61% of same-hotel revenues generated during the nine months ended September 30, 2014 (2013 – 60%). Approximately 80% of hotel revenues (2013 – 80%) 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 telephone use.

InnVest's hotels are operated by four hotel management companies which earn base and incentive fees related to the revenues and profitability of each hotel. Westmont Hospitality Canada Limited ("Westmont"), a division of one of the largest privately held managers of hotels in the world, manages the majority of InnVest's hotels (102 hotels). InnVest also partners with other third-party managers including Delta Hotels (5 hotels), Fairmont Hotels (3 hotels) and Hilton Hotels (2 hotels), each an experienced hotel manager with recognized brands. All but one of our hotels (Les Suites, Ottawa) are operated under widely recognized brands. While independent hotels may do well in strong market locations, we believe that most travelers prefer the consistent service and quality associated with recognized brands.

The hotels' primary operating costs include wages, food costs, utilities, management fees and sales and marketing expenses. Other property level expenses include property taxes, ground rent for leasehold interests and property insurance. Many of these other property level expenses are relatively fixed and do not change in accordance with revenue levels.

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

Office, Retail and Retirement Home Business

At September 30, 2014, InnVest owns one retail complex as well as one retirement home. These real estate interests are adjacent to an owned hotel and were acquired as part of the hotel's acquisition. During the nine months ended September 30, 2014, this business segment contributed $0.5 million in revenues (2013 – $1.6 million). In May 2013, InnVest sold one office and retail complex in Sherbrooke, Quebec. Historically, the sold asset contributed over 60% of this business segment's annual revenues and the vast majority of its gross operating profit.

Franchise Business

InnVest owns 50% of Choice Canada, which has franchise agreements with over 300 locations 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 addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems.

In 1993, Choice Canada was granted a 99-year licence 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 licenced properties and by selling franchises.

HOTEL MANAGEMENT DIVERSIFICATION(1)

OUTER CIRCLE
YTD 2014 Revenues
- **61%** Westmont
- **11%** Delta
- **19%** Fairmont
- **9%** Hilton

INNER CIRCLE
YTD 2014 Hotel GOP
- **65%** Westmont
- **8%** Delta
- **20%** Fairmont
- **7%** Hilton

HOTEL SERVICE CATEGORY DIVERSIFICATION(1)

OUTER CIRCLE
YTD 2014 Revenues
- **61%** Full-service
- **39%** Limited- and focused-service

INNER CIRCLE
YTD 2014 Hotel GOP
- **51%** Full-service
- **49%** Limited- and focused-service

HOTEL GEOGRAPHIC DIVERSIFICATION(1)

OUTER CIRCLE
YTD 2014 Revenues
- **38%** Ontario
- **19%** Quebec
- **14%** Atlantic
- **29%** Western

INNER CIRCLE
YTD 2014 Hotel GOP
- **37%** Ontario
- **16%** Quebec
- **15%** Atlantic
- **32%** Western

(1) Based on portfolio as at September 30, 2014

BUSINESS STRATEGY

In early 2013, InnVest announced a comprehensive two-year strategic plan based on four key initiatives. In March 2014, InnVest's Board of Trustees (the "Board") was reconstituted and undertook a review of InnVest's strategic plan. In conjunction with this review, in April 2014, the Board appointed an interim Managing Director and commenced a search for a permanent full-time chief executive officer to be employed by InnVest. During the second quarter of 2014, the chief financial officer role became fully dedicated to the affairs of the REIT.

Following its review, the Board supported and augmented InnVest's strategic plan to reposition the portfolio and focus on a smaller portfolio of 'core' hotels; invest in these core hotels to position them for long-term growth; and to lower InnVest's leverage to reduce its risk profile. With many of its two-year objectives achieved (see table below) and InnVest's financial position improved, management is focused on growth including additional investments in existing properties to optimize performance of the existing portfolio and external growth through acquisitions to further enhance the portfolio's quality, diversification and return on investment attributes. Management continues to target leverage reduction as a key priority. As part of this effort, management is reviewing InnVest's capital structure and alternatives to better optimize cost of capital including diversifying funding sources and enhancing liquidity.

Recent Developments:
In October 2014, InnVest announced that it had entered into an agreement to acquire a 20% interest in the 1,363-room Fairmont Royal York in Toronto (the "Royal York Hotel") through a joint venture with KingSett Real Estate Growth LP No. 5 and Ivanhoé Cambridge. The joint venture will acquire the Royal York Hotel for an aggregate price of $186.5 million, or $137,000 per key, with InnVest's 20% share being approximately $37.3 million. The joint venture expects to finance the acquisition with conventional mortgage financing. InnVest intends to fund its proportionate share of the acquisition equity with available cash and capacity under its existing credit facilities. The transaction is expected to close January 30, 2015 and is subject to customary closing conditions. The joint venture believes the Royal York Hotel has substantial long-term potential and plans to invest over $50 million of additional funds for renovations over the 24 months following the acquisition (InnVest's share being $10.0 million). Refer to *Related Party Transactions*.

The following summary outlines progress achieved against InnVest's 2013 strategic plan including the Board's updated objectives.

Strategic Initiative	2013 Strategic Plan Objective	Progress Update
Portfolio repositioning program	Improve the overall quality and diversification of the portfolio by divesting of low-yielding non-core hotels and selectively growing the portfolio in stable markets with long-term growth potential. Planned sale of 24 non-core assets through the end of 2014 generating gross proceeds of $185 million and net proceeds after debt repayment and selling costs of about $60 million.	Under the direction of the Board, a review of the entire property portfolio was completed to help determine the optimal future strategy for InnVest. Additional hotels have been considered for sale based on management's ongoing assessment of its portfolio return expectations. As a result, ten additional hotels were identified as sale candidates in 2014 (including one subsequent to the end of the third quarter). InnVest has exceeded its original divestiture objectives, having generated $204.6 million of gross sales proceeds (net proceeds of $97.0 million). These include the sale of 16 non-core assets in 2014 for gross proceeds of $91.6 million (net proceeds of $68.7 million). Eight hotels were sold in 2013. Management expects remaining gross disposition proceeds of approximately $75 million (net proceeds of approximately $35 million). Five hotels are currently under purchase and sale agreements for aggregate gross proceeds of over $44 million and satisfy the criteria to be classified as held for sale at the end of the third quarter. The announced participation in the acquisition of the Royal York Hotel represents InnVest's first addition to the portfolio since 2008 and support's management's objectives of growing in stable markets with long-term return potential.

Strategic Initiative	2013 Strategic Plan Objective	Progress Update
Capital investment program	Execute a two-year (2013-2014) capital program to invest approximately $130 million in the core hotel portfolio, approximately $80 million above the estimated reserve over this two-year period. This incremental funding is expected through non-core asset sales and incremental debt proceeds. Core hotels are characterized as hotels with investment metrics that are accretive to InnVest's cost of capital, located in stable or growing markets, achieve their fair market share or above and show favourable potential growth prospects through capital investment or repositioning. The capital program is aimed at renovating and repositioning approximately 60 Comfort Inn hotels, targeting profit-improving projects to reposition select hotels as well as fortifying hotel competitive positions in key markets. Additional investments that meet internal return on investment expectations may be considered. The ultimate extent and timing of these planned capital investments will be dependent on business levels and capital availability.	Over $60 million was invested in 2013 with approximately $70 million planned for 2014, $57.8 million of which was invested year-to-date in 2014. Investments completed in 2014 include guestroom upgrades at the Delta Prince Edward, the Fairmont Palliser in Calgary, and the Sheraton Suites Calgary Eau Claire. Significant investments underway during the third quarter of 2014 included the repositioning of one unbranded hotel to a Holiday Inn as well as the completion of guestroom renovations at the Delta Winnipeg. Through the end of the third quarter, 47 Comfort Inn hotels (31 in 2013 and 16 in 2014) have been renovated as part of InnVest's brand revitalization program representing over 80% of InnVest's core Comfort Inn portfolio. Seven hotels are currently under renovation with the balance planned through the remainder of the year and into early 2015. Improved operations resulting from renovations, particularly those geared towards repositioning an asset, will typically take time before targeted returns are achieved. Furthermore, some of the benefits of InnVest's 2013 renovation activity are being offset by ongoing renovation activity underway during the current year. On balance, InnVest's capital program is contributing to improved profitability for the portfolio. The 31 Comfort Inns renovated throughout 2013 experienced almost 18% growth in revenues during the third quarter of 2014 and over 38% improvement in hotel gross operating profit as compared to the comparative period in the prior year.
Strengthen the balance sheet	Maintain 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. Target leverage (debt to gross asset value) reduction below 60% and reduced reliance on dilutive securities. This is expected to be accomplished through asset sales, regular principal amortization repayments and potential capital market transactions. Following its capital investment program, InnVest anticipates to be building cash reserves, positioning it to further reduce indebtedness or to deploy its capital in select investments to grow the portfolio.	Following changes to InnVest's Board in March 2014, a Capital Structure Task Force subcommittee was established to review InnVest's capital structure and alternatives to better optimize cost of capital, diversity of funding sources and liquidity so as to best enable the future execution of InnVest's business strategy in a manner that creates significant value for unitholders. In March 2014, KingSett Capital ("KingSett") was introduced as a strategic capital partner of InnVest, providing the REIT with incremental capital sources to support debt and growth initiatives. In April 2014, InnVest completed a $50 million subordinated credit facility with KingSett and InnVest has access to an additional $50 million non-revolving standby facility. InnVest's joint venture partnership with KingSett to acquire the Royal York Hotel further highlights the value of this relationship and the optionality and scale it provides to grow the portfolio. Refer to *Related Party Transactions*. Building on its commitment to limit the use of convertible securities, InnVest completed the early redemption of its $70 million Series C Debentures in June 2014. In July, InnVest successfully completed a tender offer for $28.8 million Series G Debentures and amended terms of the remaining balance outstanding to minimize their dilutive impact resulting in non-cash net gains of $11.8 million during the third quarter of 2014. Following financing initiatives completed year-to-date, InnVest does not have any significant debt maturities until July 2015. At September 30, 2014, InnVest's debt to gross asset value was 65.8% (refer to *Liquidity and Capital Resources*).

Strategic Initiative	2013 Strategic Plan Objective	Progress Update
Improve operations	Leverage renovated product to shift business to higher rated segments and capture greater market share amidst positive industry trends. Continually strive to improve InnVest's operating efficiency by taking advantage of its size and implementing industry best practices to maximize cash flows and operating margins.	Progress achieved in executing InnVest's strategic plan has contributed to improve operating margins by 130 basis points year-to-date in 2014 (310 basis points in the third quarter of 2014). In March 2014, InnVest announced its intention to internalize asset management by the end of the year. In addition, InnVest completed amendments to its hotel management agreement with Westmont to provide the REIT with greater flexibility and operator accountability for achieving operating targets. Refer to *Related Party Transactions*. Coupled with the active asset management of the portfolio, these changes are expected to contribute to enhanced business oversight and alignment of interests with key stakeholders and help position the REIT to improve operations.

OUTLOOK

The hospitality industry is highly correlated to the economy. The economic and travel outlooks across Canada continue to be positive with further growth anticipated in 2015, driven by improving demand expectations and a low supply-growth outlook for new hotel inventory.

Through the end of 2014 and into 2015, InnVest expects to continue executing its portfolio repositioning strategy of divesting of low-yielding assets and reinvesting proceeds generated both internally to undertake an extensive capital program to enhance its product offering at a number of hotels, as well as externally through selective asset acquisitions as recently highlighted with the participation in the acquisition of the Royal York Hotel. While impacting near-term operating results caused by displacement, these targeted investments have, and are expected to continue to, improve the portfolio's competitive positioning and operating performance through increased occupancies and average daily rates over the longer term.

InnVest is committed to enhancing unitholder alignment and growing unitholder value. InnVest's strategy to reduce debt leverage (including reducing InnVest's reliance on dilutive convertible securities), reposition its portfolio and invest in core assets is expected to enhance the stability and growth of the portfolio's long-term cash flows and valuation.

THIRD QUARTER HIGHLIGHTS

- Revenue per available room ("RevPAR") on a same-hotel basis improved 7.8% through a combination of rate and occupancy gains;
- Same-hotel revenues improved 7.3%. Overall revenues declined $12.7 million reflecting the sale of non-core hotels;
- Notwithstanding the revenue decline, gross operating profit ("GOP") improved 1.8% to $48.2 million and GOP margins improved 310 basis points to 32.5%;
- The portfolio of 31 Comfort Inns renovated in 2013 grew room revenue by 17.9% and Hotel GOP by 38.3%;
- Generated net income of $16.5 million compared to $13.9 million in the prior period, reflecting higher GOP achieved as well as non-cash variances as compared to the prior period;
- Funds from operations ("FFO") and adjusted funds from operations ("AFFO") each improved to $0.278 per unit diluted and $0.239 per unit diluted;
- Sold three non-core assets for aggregate gross proceeds of $16.4 million ($91.6 million year-to-date). In aggregate, management has completed transactions exceeding its gross and net proceed divestiture objectives through 2014;
- Completed an offer to purchase and cancelled $28.8 million of its Series G convertible debentures, and amended certain terms for its remaining Series G convertible debentures; and
- Subsequent to the end of the quarter, entered into an agreement to acquire a 20% interest in the Royal York in Toronto.

FINANCIAL HIGHLIGHTS

	Three months ended September 30, 2014	2013	Variance	Nine months ended September 30, 2014	2013	Variance
Revenues	**$ 148,434**	$ 161,133	(7.9%)	**$ 409,096**	$ 446,231	(8.3%)
Gross operating profit[1]	**48,239**	47,379	1.8%	**100,578**	103,913	(3.2%)
Gross operating profit margin	**32.5%**	29.4%	3.1%	**24.6%**	23.3%	1.3%
Net income (loss) and comprehensive income (loss)	**16,508**	13,946	18.4%	**(13,545)**	(7,215)	(87.7%)
Funds from operations[1]	**31,720**	31,504	0.7%	**48,092**	51,370	(6.4%)
Adjusted funds from operations[1]	**27,319**	26,482	3.2%	**36,146**	38,012	(4.9%)
Distributions declared	**9,481**	9,368	1.2%	**28,312**	28,092	0.8%
Per unit diluted:						
Net income (loss) and comprehensive income (loss)	**$ 0.161**	$ 0.139	16.8%	**$ (0.143)**	$ (0.077)	(85.7%)
Funds from operations	**0.278**	0.270	3.0%	**0.467**	0.499	(6.4%)
Adjusted funds from operations[2]	**0.239**	0.226	5.8%	**0.358**	0.377	(5.0%)
Distributions	**0.0999**	0.0999	–	**0.2997**	0.2997	–

"nm" – not meaningful
(1) Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 20.
(2) Adjusted funds from operations per unit is calculated on a basis consistent with that used to calculate net income per unit.

The following discussion summarizes InnVest's performance for the three and nine months ended September 30, 2014 as compared to 2013.

Revenues

	Three months ended September 30, 2014	2013	Variance	Nine months ended September 30, 2014	2013	Variance
Hotel	**$ 148,257**	$ 160,912	(7.9%)	**$ 408,550**	$ 444,610	(8.1%)
Other real estate properties	**177**	221	(19.9%)	**546**	1,621	(66.3%)
Revenues	**$ 148,434**	$ 161,133	(7.9%)	**$ 409,096**	$ 446,231	(8.3%)

Same-hotel growth was offset by asset sales completed since 2013 which contributed to a decline in overall hotel revenues during the three and nine months ended September 30, 2014. Generating over 99% of total revenues, InnVest's principal business is the ownership of hotel real estate (see detailed discussion below). Revenues from other real estate properties declined for the year-to-date period owing to the sale of one office and retail complex in late May 2013.

Hotel revenues

	Three months ended September 30, 2014	2013	Variance	Nine months ended September 30, 2014	2013	Variance
Room	**$ 122,831**	$ 132,935	(7.6%)	**$ 325,230**	$ 353,883	(8.1%)
Non-room	**25,426**	27,977	(9.1%)	**83,320**	90,727	(8.2%)
Hotel revenues	**$ 148,257**	$ 160,912	(7.9%)	**$ 408,550**	$ 444,610	(8.1%)

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.

Same-hotel growth in revenues of 7.3% and 3.9% during the three and nine months ended September 30, 2014 was offset by revenue declines following hotel property divestitures (including one lease surrender) over the periods. Since the beginning of 2013, 24 assets (3,854 rooms) have been divested (eight in 2013 and sixteen in 2014).

Year-over-year same-hotel revenues increased, aided by revenue displacement caused by renovations across the portfolio in 2013. This was somewhat mitigated by ongoing disruption caused by renovations at select hotels in 2014 or still recovering from renovations undertaken. Overall, same-hotel RevPAR growth during the three and nine months ended September 30, 2014 grew 7.8% and 3.9%.

	Three months ended September 30, 2014	Variance to 2013	Nine months ended September 30, 2014	Variance to 2013
Occupancy				
Ontario	73.9%	2.8 pts	66.5%	2.1 pts
Quebec	73.9%	0.3 pts	64.6%	(0.7 pts)
Atlantic	79.9%	5.4 pts	62.1%	2.6 pts
Western	71.3%	4.1 pts	64.6%	(0.2 pts)
Total	74.3%	2.9 pts	65.0%	1.1 pts
ADR				
Ontario	$ 114.97	2.7%	$ 111.53	0.9%
Quebec	$ 127.45	5.6%	$ 120.09	3.6%
Atlantic	$ 127.67	4.0%	$ 119.79	2.9%
Western	$ 172.07	2.7%	$ 167.28	3.1%
Total	$ 130.19	3.6%	$ 125.17	2.1%
RevPAR				
Ontario	$ 84.93	6.6%	$ 74.13	4.1%
Quebec	$ 94.18	6.1%	$ 77.53	2.4%
Atlantic	$ 102.03	11.5%	$ 74.42	7.5%
Western	$ 122.66	9.0%	$ 108.07	2.8%
Total	$ 96.73	7.8%	$ 81.42	3.9%

Note: Gross hotel revenues on a same-hotel basis (112 hotels), excluding hotels which were sold.

Room Revenues

Same-hotel room revenues during the three months ended September 30, 2014 improved $8.5 million or 7.5%. Notably, room revenue growth achieved from the Comfort Inn assets which were renovated in 2013 grew 17.9% as compared to the prior year and are up 6.5% as compared to 2012. Asset sales contributed to overall declines of $18.6 million during the quarter.

Same-hotel room revenues during the nine months ended September 30, 2014 improved $10.3 million or 3.5%.

Room revenues for the three and nine months ended September 30, 2014 are net of $2.3 million and $6.5 million (2013 – $2.5 million and $6.7 million) of costs associated with third-party loyalty programs.

			Three months ended September 30, 2014			Nine months ended September 30, 2014		
				Variance to prior year comparative period			Variance to prior year comparative period	
	# of hotels	# of rooms	**Room revenue $**	$	%	**Room revenue $**	$	%
Core Portfolio								
Ontario	49	5,838	**$ 45,224**	$ 2,684	6.3%	**$ 117,471**	$ 4,450	3.9%
Quebec	22	2,493	**22,000**	1,764	8.7%	**52,811**	1,771	3.5%
Atlantic	16	1,785	**17,344**	1,975	12.9%	**37,222**	2,872	8.4%
Western	16	2,670	**29,423**	2,455	9.1%	**76,804**	1,776	2.4%
Total Core Portfolio	103	12,786	**$ 113,991**	$ 8,878	8.4%	**$ 284,308**	$ 10,869	4.0%
Non-Core Portfolio	9	1,081	**7,151**	(402)	(5.3%)	**17,996**	(546)	(2.9%)
Total Current Portfolio	112	13,867	**$ 121,142**	$ 8,476	7.5%	**$ 302,304**	$ 10,323	3.5%
2014 Dispositions	16	2,035	**1,689**	(13,756)	nm	**22,926**	(15,811)	nm
2013 Dispositions and lease surrender	8	1,819	**–**	(4,824)	nm	**–**	(23,165)	nm
Total Portfolio	136	17,721	**$ 122,831**	$ (10,104)	(7.6%)	**$ 325,230**	$ (28,653)	(8.1%)

"nm" – not meaningful

Total Current Portfolio analysis for the three and nine months ended September 30, 2014

- Experienced growth across the Ontario region driven by strength in southwestern Ontario and the Greater Toronto Area. Year-to-date performance was limited by renovations undertaken through the first half of the year.
- Strength in Quebec City (solid group business) offset shortfalls in resource-based northern Quebec markets. Fourth quarter results across the Quebec region are expected to be impacted by planned renovation activity through the end of the year.
- Room revenue in the Atlantic region improved reflecting the positive economic return from Comfort Inn renovations completed in the prior year as well as investments at the Delta Prince Edward.
- Hotels across the Western region experienced meaningful growth following renovations completed in 2013 and through the first half of 2014 including three full-service hotels (Fairmont Palliser in Calgary, the Sheraton Calgary Suites Eau Claire and the Delta Winnipeg). Year-to-date performance was limited by renovations undertaken through the first half of the year.

Since the second quarter of 2013, 63 of our 103 Core Portfolio hotels have been, or are expected to be, renovated through the end of 2014 and into early 2015 (58 Comfort Inn hotels and 5 full-service hotels). Given the extensive renovation and repositioning of the Comfort Inn assets, these hotels are experiencing a transition period following the completion of renovations as our property managers and sales teams reposition the hotels within their competitive sets and shift the business mix to higher rated segments. Based on experience to-date, the typical period for these hotels to fully ramp up from the renovation can be upwards of a year, depending on the market.

Full-service hotels under extensive renovations throughout the year-to-date period included two hotels in Calgary (the Fairmont Palliser and the Sheraton Calgary Eau Claire), the Delta Winnipeg, Delta Prince Edward and the London Hotel & Suites (converted to a Holiday Inn in early October).

Renovation activity across the portfolio was limited during the third quarter to minimize displacement during the busier summer season. The 47 Comfort Inn hotels and the five full-service which have completed renovations since 2013 increased revenue by 12.2% and 10.2%, respectively, for the third quarter of 2014, as compared to the same quarter a year earlier. This growth rate significantly exceeds results achieved from hotels which have yet to be renovated, highlighting the return opportunities provided by internal investments within the existing portfolio. The following table summarizes operating results across our Core Portfolio and serves to highlight the displacement experienced while work is underway, as well as the growth achieved-to-date following the completion of renovations. Moreover, the table below indicates that revenues for renovated Comfort Inn hotels generally take a few quarters to ramp-up as the growth in revenues for the third quarter of 2014 for hotels renovated in 2014 was 1.5% as compared to 17.9% for hotels renovated in 2013.

			Three months ended September 30, 2014			Nine months ended September 30, 2014		
				Variance to prior year comparative period			Variance to prior year comparative period	
	# of hotels	# of rooms	**Room revenue $**	$	%	**Room revenue $**	$	%
Core Comfort Inn Portfolio								
Q2 2013[1] renovations	7	607	**$ 4,138**	$ 658	18.9%	**$ 10,272**	$ 1,505	17.2%
Q3 2013[1] renovations	12	892	**6,600**	1,318	25.0%	**16,296**	1,623	11.1%
Q4 2013[1] renovations	12	1,003	**7,667**	823	12.0%	**16,516**	597	3.8%
Renovated in 2013	31	2,502	**18,405**	2,799	17.9%	**43,084**	3,725	9.5%
Q1 2014[1] renovations	4	295	**2,784**	38	1.4%	**5,853**	(265)	(4.3%)
Q2 2014[1] renovations	11	687	**5,220**	232	4.7%	**11,252**	(1,220)	(9.8%)
Q3 2014[1] renovations	1	145	**496**	(146)	(22.7%)	**1,413**	(193)	(12.0%)
Renovated in 2014	16	1,127	**8,500**	124	1.5%	**18,518**	(1,678)	(8.3%)
Total renovated	47	3,629	**26,905**	2,923	12.2%	**61,602**	2,047	3.4%
To be renovated	11	849	**5,426**	–	–	**13,226**	23	0.2%
Core Comfort Inn Portfolio	58	4,478	**32,331**	2,923	9.9%	**74,828**	2,070	2.8%
Full-Service Core hotels under renovation	5	1,475	**20,265**	1,875	10.2%	**50,238**	1,058	2.2%
Other Core hotels	40	6,833	**61,395**	4,080	7.1%	**159,242**	7,741	5.1%
Total Core Portfolio	103	12,786	**$ 113,991**	$ 8,878	8.4%	**$ 284,308**	$ 10,869	4.0%

(1) Based on the period in which substantial completion of renovations were completed.

Non-Room Revenues

The sale of food and beverage represents over 80% of the non-room revenue earned over the periods presented. Non-room revenues decreased $2.6 million (9.1%) and $7.4 million (8.2%) during the three and nine months ended September 30, 2014 owing to the divestiture of hotels over the past year, including three hotels during the third quarter. Same-hotel revenues improved $1.5 million (6.5%) and $3.9 million (5.3%) over the three and nine month periods led by group activity across the full-service portfolio.

Hotel and other real estate properties expense

	Three months ended September 30,			Nine months ended September 30,		
	2014	2013	Variance	**2014**	2013	Variance
Hotel	**$ 99,975**	$ 113,532	(11.9%)	**$ 307,697**	$ 341,091	(9.8%)
Other real estate properties	**220**	222	(0.8%)	**821**	1,227	(33.1%)
Hotel and other real estate properties	**$ 100,195**	$ 113,754	(11.9%)	**$ 308,518**	$ 342,318	(9.9%)

InnVest continually focuses on managing all costs to maximize overall profitability without impacting the 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.

Hotel expenses decreased $13.6 million (11.9%) and $33.4 million (9.8%) over the three and nine months ended September 30, 2014, primarily reflecting the elimination of costs associated with assets sold. Same-hotel expenses increased approximately 4.5% and 3.9% over the three and nine months ended September 30, 2014, reflecting incremental costs associated with higher revenues achieved.

Consistent with changes in revenues, other real estate properties during the year-to-date period saw reduced operating expenses reflecting the sale of one office and retail complex during the second quarter of 2013.

Gross operating profit

	Three months ended September 30, 2014	2013	Variance	Nine months ended September 30, 2014	2013	Variance
Hotel	**$ 48,282**	$ 47,380	1.9%	**$ 100,853**	$ 103,519	(2.6%)
Other real estate properties	**(43)**	(1)	nm	**(275)**	394	nm
Gross operating profit	**$ 48,239**	$ 47,379	1.8%	**$ 100,578**	$ 103,913	(3.2%)

"nm" – not meaningful

It is notable that notwithstanding the reduction in revenues following asset divestitures, gross operating profit ("GOP") during the three months ended September 30, 2014 improved $0.9 million, or 1.8%. Asset divestitures contributed to a $3.3 million, or 3.2%, decline for the nine months ended September 30, 2014.

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, more profit is achieved through increases in ADR. Conversely, in periods of marginal (below inflation) or declining revenues, decreases to expenses are limited, resulting in reduced profitability.

Notwithstanding the hotel revenue reduction of $12.7 million (7.9%), Hotel GOP for the third quarter of 2014 improved $0.9 million (1.9%) year over year. Growth achieved following renovations across the portfolio offset reduced contributions from assets sold. Moreover, the GOP for the Total Core portfolio increased 15.7% in the third quarter year over year as compared to a decrease in GOP of 16.4% for the Non-Core portfolio reflecting the strong performance of core assets. Overall Hotel GOP margins improved during the quarter, benefiting from the divestiture of low yielding assets as well as same-hotel margin improvements of 190 basis points to 32.7%.

For the nine months ended September 30, 2014, Hotel GOP declined $2.7 million or 2.6%. Same-Hotel GOP growth of $3.5 million (3.7%) was offset by reduced contribution to GOP from assets sold totaling $6.2 million. Overall Hotel GOP margins improved 140 basis points to 24.7% year-to-date, largely benefiting from the divestiture of low yielding assets. Same-hotel GOP margin was stable at 25.8% year-to-date reflecting renovation displacement at a number of hotels through the first half of the year offsetting improved GOP margins at renovated hotels. Limited cost savings are achieved during renovation periods given the high fixed-cost nature of expenses. For example, GOP year-to-date margins for our Comfort Inns renovated in 2013 improved 400 basis points, highlighting the positive operating leverage from improving revenue performance.

			Three months ended September 30, 2014			Nine months ended September 30, 2014		
				Variance to prior year comparative period			Variance to prior year comparative period	
	# of hotels	# of rooms	**Hotel GOP $**	$	%	**Hotel GOP $**	$	%
Core Portfolio								
Ontario	49	5,838	**$ 16,035**	$ 1,561	10.8%	**$ 34,648**	$ 1,290	3.9%
Quebec	22	2,493	**8,048**	879	12.3%	**14,693**	36	0.2%
Atlantic	16	1,785	**8,529**	1,585	22.8%	**14,061**	2,213	18.7%
Western	16	2,670	**13,198**	2,184	19.8%	**30,962**	808	2.7%
Total Core Portfolio	103	12,786	**$ 45,810**	$ 6,209	15.7%	**$ 94,364**	$ 4,347	4.8%
Non-Core Portfolio	9	1,081	**2,031**	(398)	(16.4%)	**3,385**	(820)	(19.5%)
Total Current Portfolio	112	13,867	**$ 47,841**	$ 5,811	13.8%	**$ 97,749**	$ 3,527	(3.7%)
2014 Dispositions	16	2,035	**441**	(4,170)	nm	**3,163**	(5,072)	nm
2013 Dispositions and lease surrender	8	1,819	**–**	(739)	nm	**(59)**	(1,121)	nm
Total Portfolio	136	17,721	**$ 48,282**	$ 902	1.9%	**$ 100,853**	$ (2,666)	(2.6%)

"nm" – not meaningful

The following table summarizes operating results across our Core Portfolio and serves to highlight the profitability impact while renovations are underway, as well as the growth achieved-to-date following the completion of renovations. The 47 Comfort Inn hotels which have completed renovations since 2013 increased GOP by 23.2% for the third quarter of 2014, as compared to the same quarter a year earlier. This growth rate significantly exceeds results achieved from hotels which have yet to be renovated, highlighting the return opportunities provided by internal investments within the existing portfolio. Moreover, the table below indicates that GOP for renovated hotels generally take a few quarters to ramp-up as the GOP for the third quarter of 2014 for hotels renovated in 2014 decreased 1.0% year over year, as compared to an increase of 38.3% for hotels renovated in 2013.

			Three months ended September 30, 2014			Nine months ended September 30, 2014		
	# of hotels	# of rooms	**Hotel GOP $**	Variance to prior year comparative period $	%	**Hotel GOP $**	Variance to prior year comparative period $	%
Core Comfort Inn Portfolio								
Q2 2013[1] renovations	7	607	**$ 2,068**	$ 655	46.4%	**$ 4,430**	$ 1,418	47.1%
Q3 2013[1] renovations	12	892	**3,161**	1,155	57.6%	**6,592**	1,374	26.3%
Q4 2013[1] renovations	12	1,003	**3,734**	671	21.9%	**6,105**	259	4.4%
Renovated in 2013	31	2,502	**8,963**	2,481	38.3%	**17,127**	3,051	21.7%
Q1 2014[1] renovations	4	295	**1,506**	24	1.6%	**2,362**	(332)	(12.3%)
Q2 2014[1] renovations	11	687	**2,362**	81	3.6%	**3,627**	(1,279)	(26.1%)
Q3 2014[1] renovations	1	145	**105**	(147)	(58.3%)	**307**	(198)	(39.2%)
Renovated in 2014	16	1,127	**3,973**	(42)	(1.0%)	**6,296**	(1,809)	(22.3%)
Total renovated	47	3,629	**12,936**	2,439	23.2%	**23,423**	1,242	5.6%
To be renovated	11	849	**2,220**	(88)	(3.8%)	**4,163**	(425)	(9.3%)
Core Comfort Inn Portfolio	58	4,478	**15,156**	2,351	18.4%	**27,586**	817	3.1%
Full-Service Core hotels under renovation	5	1,475	**8,872**	1,653	22.9%	**18,642**	565	3.1%
Other Core hotels	40	6,833	**21,782**	2,205	11.3%	**48,136**	2,965	6.6%
Total Core Portfolio	103	12,786	**$ 45,810**	$ 6,209	15.7%	**$ 94,364**	$ 4,347	4.8%

(1) Based on the period in which substantial completion of renovations were completed.

Other Expenses

	Three months ended September 30, **2014**	2013	Variance	Nine months ended September 30, **2014**	2013	Variance
Corporate and administrative	**$ 2,037**	$ 1,140	78.7%	**$ 9,115**	$ 3,824	138.4%
Interest expense:						
Mortgages and other debt	**11,855**	10,960	8.2%	**34,452**	34,178	0.8%
Convertible debentures	**4,542**	6,296	(27.9%)	**16,716**	19,142	(12.7%)
Joint venture income	**(1,846)**	(1,659)	11.3%	**(3,932)**	(3,586)	9.6%
Other income, net	**(12,398)**	(1,428)	nm	**(16,854)**	(9,608)	75.4%
Writedown (recovery) of hotel properties, net	**4,955**	(999)	nm	**4,464**	2,386	87.1%
Depreciation and amortization	**20,804**	20,137	3.3%	**60,259**	61,309	(1.7%)
Unrealized loss (gain) on liabilities presented at fair value	**1,782**	(992)	nm	**9,903**	3,827	nm
Other expenses	**$ 31,731**	$ 33,455	(5.2%)	**$ 114,123**	$ 111,472	2.4%

"nm" – not meaningful

Other expenses during the three and nine months ended September 30, 2014 decreased $1.7 million and increased $2.7 million, respectively.

Higher corporate and administrative costs largely reflect the addition of an interim Managing Director and a dedicated Chief Financial Officer during the second quarter, as well as higher accrued charges relating to planned changes to the trustee compensation plan and costs incurred in the search for a permanent chief executive officer for the REIT. As part of a settlement reached in March 2014 following an agreement with a unitholder, InnVest incurred $3.6 million in non-recurring costs during the first quarter, including the reimbursement of customary transaction costs incurred by the parties involved.

Higher mortgage interest expenses during the third quarter of 2014 reflect the funding of the KingSett loan during the second quarter (refer to *Related Party Transactions*) which was somewhat offset by the net repayment of mortgage debt from asset sales. Convertible debenture interest savings reflect the redemption of InnVest's Series C debentures in early June and the purchase for cancellation of $28.8 million of its Series G debentures on July 31, 2014 (refer to *Liquidity and Capital Resources*).

Joint venture income reflects InnVest's 50% interest in the net profits of Choice Canada. For the three and nine months ended September 30, 2014, InnVest's joint venture income generated $1.8 million and $3.9 million, respectively (2013 – $1.7 million and $3.6 million).

Third quarter results include $0.6 million of net gains on asset sales completed during the quarter as well as non-cash gains on the early settlement and amendments to the Series G debentures totaling $11.8 million, each shown in 'Other income'. Third quarter results also include a $5.3 million non-cash impairment charge relating to four properties, and a $0.3 million reversal of prior impairments, shown in 'Writedown (recovery) of hotel properties , net' above. Year-to-date, InnVest has generated $4.6 million in net gain on sales, $2.8 million for the reversal of prior impairments and a $7.3 million non-cash impairment charge.

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 volatility of InnVest's unit price over the periods presented and their impact on convertible debenture holders' conversion option feature. For the three and nine months ended September 30, 2014, InnVest recognized a fair value loss of $1.8 million and $9.9 million, respectively (2013 – gain of $1.0 million and loss of $3.8 million, respectively).

Income Taxes

For the three and nine months ended September 30, 2014, InnVest generated a deferred income tax recovery of $nil as compared to a deferred income tax recovery of $nil and $0.3 million in the prior period.

Net Income (Loss)

For the three months ended September 30, 2014, InnVest realized net income of $16.5 million ($0.161 per unit diluted) compared to $13.9 million in the prior period ($0.139 per unit diluted). For the nine months ended September 30, 2014, InnVest realized a net loss of $13.5 million ($0.143 per unit diluted), compared to a loss of $7.2 million in the prior period ($0.077 per unit diluted).

Funds from Operations (FFO)

For the three months ended September 30, 2014, InnVest generated improved FFO of $31.7 million ($0.278 per unit diluted) compared to $31.5 million in the prior period ($0.270 per unit diluted). For the nine months ended September 30, 2014, InnVest generated FFO of $48.1 million ($0.467 per unit diluted) compared to $51.4 million in the prior period ($0.499 per unit diluted). The $3.3 million reduction primarily reflects lower Hotel GOP as a result of asset sales.

Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 21 for a reconciliation of net income (loss) to FFO.

Adjusted Funds from Operations (AFFO)

For the three months ended September 30, 2014, InnVest generated AFFO of $27.3 million ($0.239 per unit diluted) compared to $26.5 million in the prior period ($0.226 per unit diluted). For the nine months ended September 30, 2014, InnVest generated AFFO of $36.1 million ($0.358 per unit diluted) compared to $38.0 million in the prior period ($0.377 per unit diluted). The $1.9 million reduction reflects the lower FFO generated, offset by decreased FF&E Reserve following asset sales. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 21 for a reconciliation of FFO to AFFO.

Distributions declared for the nine months ended September 30, 2014 totalled $28.3 million, or $0.2997 per unit (2013 – $28.1 million or $0.2997 per unit).

CHANGES IN FINANCIAL CONDITION

Operating Activities

For the nine months ended September 30, 2014, cash generated by operating activities decreased $10.7 million to $41.1 million as compared to the same period in 2013, reflecting lower Hotel GOP achieved, higher corporate and administrative costs during the period as well as higher working capital usage over the period.

Financing Activities

Proceeds from financing activities included the refinancing of the Sheraton Eau Claire, Calgary ($68.0 million), new subordinated term loan financing ($50.0 million) and amounts drawn on a capital loan facility ($12.3 million) and a bridge loan facility ($32.3 million). Proceeds from these financings were used to fund the early redemption of InnVest's $70.0 million 5.85% Series C convertible debentures in June 2014, the repayment for cancellation of $28.8 million of Series G 5.75% convertible debentures in July 2014, as well as to repay mortgage maturities.

Cash distributions year-to-date totalled $26.0 million as compared to $27.7 million in the prior period. The reduction reflects the higher distribution re-investment program participation in 2014.

New units issued during the current period reflect payments with units for one-time fees and partial interest payments for the KingSett loans (Refer to *Related Party Transactions*).

Financing activities in the prior period reflected net proceeds of $110.0 million from the Series G 5.75% convertible debentures issued in February 2013 (gross proceeds of $115.0 million). Proceeds were used to fund the early redemption of $75.0 million of Series B – 6.0% convertible debentures on April 1, 2013 and to repay the amount drawn on the line of credit.

Investing Activities

Each year, InnVest allocates between 4% and 5% of total hotel revenues at each hotel to replace furniture, fixtures and equipment and to fund capital improvements (the "FF&E Reserve"). Capital expenditures during the nine months ended September 30, 2014 totalled $57.8 million (2013 – $41.2 million) compared to the allocated FF&E Reserve of $17.2 million (2013 – $18.6 million).

In early 2013, InnVest announced a strategic plan which included significant capital investments in its core hotel portfolio through the end of 2014 (refer to *Business Strategy*). Capital investments undertaken in 2013 and year to date in 2014 reflect the continuing rollout of InnVest's Comfort Inn revitalization program (guestrooms, bathrooms, corridors, lobby and breakfast room). Other significant projects underway in 2014 included guestroom upgrades at the Delta Prince Edward (all 211 guestrooms were completed in early May 2014), Fairmont Palliser in Calgary (approximately 130 guestrooms were completed in June 2014), the continuation of phased renovations at the Sheraton Suites Calgary Eau Claire (over 150 guestrooms were completed in April 2014), the final phase of guestroom renovations at the Delta Winnipeg (over 200 guestrooms were completed in September 2014) and the conversion of one unbranded hotel in London to a Holiday Inn (rebranded in October 2014). The decrease in restricted cash reflects its use to fund certain of these capital investments during the period.

Investing activities reflect the year-to-date distributions of $3.6 million received from InnVest's investment in Choice Canada (2013 – $3.3 million).

Investing activities also include gross proceeds of $89.5 million ($87.2 million net of costs) from the sale of 16 properties in 2014 (8 properties were sold in 2013 for gross proceeds of $93.1 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 during that period. 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 fixed or virtually fixed. The quarterly results highlighted below have been impacted by asset divestitures completed since 2013 and consequently are not reflective of the typical seasonality of the portfolio on a same-hotel basis.

Quarter ended (unaudited) (2012 restated)

	Q3 2014	**Q2 2014**	**Q1 2014**	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Revenues	**$ 148,434**	**$ 146,231**	**$ 114,431**	$ 140,667	$ 161,133	$ 161,276	$ 123,822	$ 148,499
Gross operating profit	**48,239**	**38,845**	**13,494**	29,751	47,379	43,271	13,263	28,793
Net income (loss)	**16,508**	**4,818**	**(34,871)**	(47,741)	13,946	20,505	(41,666)	146,498
FFO	**31,720**	**20,765**	**(4,575)**	12,472	31,504	25,097	(5,231)	11,762
AFFO	**27,319**	**16,450**	**(7,623)**	8,173	26,482	20,174	(8,644)	7,226
Distributions declared	**9,481**	**9,453**	**9,378**	9,373	9,368	9,364	9,360	9,349
Per unit – diluted:								
Net income (loss)	**$ 0.161**	**$ 0.051**	**$ (0.372)**	$ (0.509)	$ 0.139	$ 0.189	$ (0.445)	$ 1.227
FFO	**0.278**	**0.190**	**(0.049)**	0.127	0.270	0.223	(0.056)	0.125
AFFO	**0.239**	**0.151**	**(0.081)**	0.086	0.226	0.180	(0.092)	0.077
Trust units outstanding	**94,992,322**	**94,713,251**	**93,909,613**	93,830,897	93,788,684	93,745,281	93,702,704	93,583,904
Weighted average trust units outstanding	**94,863,069**	**94,433,893**	**93,858,254**	93,812,648	93,770,602	93,726,338	93,663,167	93,572,670
Total assets	**$ 1,186,098**	**$ 1,227,354**	**$ 1,271,608**	$ 1,280,541	$ 1,339,982	$ 1,387,235	$ 1,468,212	$ 1,412,981
Total long-term debt	**709,493**	**714,154**	**688,038**	674,088	680,851	690,792	714,399	730,618

ASSET PROFILE

InnVest's total asset carrying value was $1,186.1 million at September 30, 2014, down $94.4 million, as compared to $1,280.5 million at December 31, 2013.

	Sep 30, 2014	Dec 31, 2013
Current assets		
Cash	**$ 22,032**	$ 20,261
Accounts receivable	**27,535**	28,788
Prepaid expenses and other assets	**12,257**	8,915
Finance lease receivable	**2,100**	6,413
Assets held for sale	**28,410**	58,658
	92,334	123,035
Non-current assets		
Restricted cash	**2,259**	6,760
Investment in joint venture	**1,572**	1,202
Hotel properties	**1,077,115**	1,135,503
Other real estate properties	**1,929**	1,964
Intangible assets	**10,889**	12,077
Total assets	**$ 1,186,098**	$ 1,280,541

Hotel properties (inclusive of those held for sale) comprise over 90% of InnVest's total assets. In accordance with its strategic plan, InnVest has completed the sale of 16 hotels year-to-date in 2014 for aggregate gross proceeds of $91.6 million. These transactions contributed to a reduction in assets held for sale of $79.8 million as compared to December 31, 2013. At September 30, 2014, five hotels were classified as held for sale (625 rooms).

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, the annual FF&E Reserve and debt service requirements.

CREDIT FACILITIES

At September 30, 2014, InnVest has various credit facilities including a revolving operating line, a capital expenditure line, and a non-revolving subordinated loan with KingSett. Refer to *–Debt Strategy* below for a detailed description of each of these credit facilities. These credit facilities can be used to finance temporary shortfalls in cash resulting from business seasonality and working capital fluctuations, to cover 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 a portion of capital expenditures in accordance with mortgage terms.

ISSUING ADDITIONAL DEBT

InnVest also 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 secure debt financing on reasonable terms is ultimately dependent on market conditions and the lender's determination of InnVest's creditworthiness. At September 30, 2014, substantially all of InnVest's hotel assets have been pledged as security under 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.

At September 30, 2014, InnVest has total current liquidity of $124.1 million (total potential liquidity of $126.4 million). Subsequent to the end of the quarter, InnVest announced its agreement to purchase a 20% interest in the Royal York Hotel for approximately $37.3 million as well as an estimated $10.0 million additional investment to complete renovations over the 24 months following the acquisition. The Royal York Hotel acquisition, scheduled to close in January 2015, is expected to be financed with conventional mortgage financing, cash on hand and capacity under InnVest's available credit facilities. Refer to *Business Strategy – Recent Developments*.

		September 30, 2014
Cash	$	22,032
Operating line availability (net of letters of credit)		35,157
Bridge line availability		2,550
Subordinated non-revolving liquidity facility availability		50,000
Capital expenditure loan facility availability		
($3.3 million currently available based on capital expenditures incurred to-date)		14,392
Total current liquidity	$	124,131
Additional liquidity contingent on capital expenditures incurred:		
Restricted cash		2,259
Total potential liquidity	$	126,390

Management believes that 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, will allow InnVest to meet all 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 costs advantageous to InnVest. 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 September 30, 2014, InnVest has cash totalling $24.3 million, of which $2.3 million is restricted to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

Each year, InnVest allocates an FF&E Reserve totalling between 4% and 5% of total hotel revenue. Capital expenditures during the nine months ended September 30, 2014 totalled $57.8 million (2013 – $41.2 million) compared to the allocated FF&E Reserve of $17.2 million (2013 – $18.6 million). Incremental capital expenditures above the allocated FF&E Reserve was funded with cash on hand and InnVest's capital expenditure loan facility. At September 30, 2014, future capital commitments were approximately $16.3 million.

The following chart shows the changes in the FF&E Reserve restricted cash balance since December 31, 2013.

Opening balance, January 1, 2014	$	6,760
FF&E Reserve		17,181
Transferred from operating cash		23,824
Funded through capital expenditure loan facility		
(added to mortgage debt)		12,294
Capital expenditures		(57,800)
Closing balance, September 30, 2014	$	2,259

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'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.

CREDIT FACILITY AND BRIDGE LOANS

InnVest's operations are seasonal (see Quarterly Results). InnVest's credit facility ensures that the seasonal fluctuation in cash flows will not affect its ability to operate in the normal course of business.

InnVest has an operating line of credit of up to $40.0 million with a major banking institution which matures August 31, 2016 (extended during the third quarter of 2014). At September 30, 2014, the operating line is secured by nine properties. The amount of the operating line is subject to a mortgageability test, which is based on the operating results of the secured properties. Interest rates are based on the lesser of (i) Canadian prime rate plus 2.0% and (ii) the Canadian Bankers' Acceptance rate plus 3.0%. Based on the operating results of the secured properties for the four quarters ended September 30, 2014, InnVest qualifies for $37.5 million availability under the line of credit. At September 30, 2014, no amount was drawn on the credit facility (December 31, 2013 – $nil). Letters of credit totalling $2.3 million were issued pursuant to the facility (December 31, 2013 – $2.2 million).

During the second quarter, InnVest finalized a bridge loan for up to $40.0 million to be used pending permanent financing or the sale of assets. As at September 30, 2014, the bridge loan is secured by five properties (one hotel was sold during the third quarter), expires in May 2015 and bears interest at Canadian prime plus 1.5% or the Canadian Bankers' Acceptance rate plus 2.5%. The amount available under the bridge loan is subject to a mortgageability test, which is based on the operating results of the secured properties. At September 30, 2014, InnVest qualifies for $34.9 million availability, of which $32.3 million was drawn.

At September 30, 2014, InnVest has a $2.3 million (December 31, 2013 – $2.8 million) bridge loan secured by one hotel. The bridge loan matures February 28, 2015 and bears interest at the Canadian Bankers' Acceptance rate plus 4.0%.

SECURED LONG-TERM DEBT, SUBORDINATED TERM LOANS AND CONVERTIBLE DEBENTURES

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

	September 30, 2014	December 31, 2013
Mortgages and subordinated term loans		
Mortgages and subordinated term loans payable	**$ 729.3**	$ 705.7
Weighted average term to maturity	**3.5 years**	3.3 years
Weighted average interest rate	**5.7%**	5.8%
Percentage of secured financing at floating interest rate debt	**12.9%**	3.6%
Convertible debentures		
Convertible debentures outstanding	**$ 247.6**	$ 346.4
Weighted average term to maturity	**3.4 years**	3.5 years
Weighted average interest rate	**6.1%**	5.9%

Total mortgages payable at September 30, 2014 include $12.4 million presented as current liabilities related to assets held for sale (December 31, 2013 – $27.2 million). Year-to-date in 2014, sixteen hotels were sold contributing to mortgage repayments of approximately $16.5 million.

On January 7, 2014, management completed the refinancing of the Sheraton Eau Claire, Calgary for $68.0 million at a fixed interest rate of 5.33% for a 10-year term. Incremental proceeds of $36.4 million from the refinancing were available to partially repay a $45.4 million mortgage maturity in April 2014 (secured by 10 properties). Following this repayment, one of the unencumbered assets was pledged to the credit facility, one asset was sold as part of a previous financing arrangement (eliminated the finance lease receivable), two of the assets were applied to substitute mortgage security to accommodate assets sales, and the remaining six hotels were pledged toward a $40.0 million bridge loan.

In April 2014, InnVest entered into and closed a credit agreement with KingSett for a four-year $50.0 million subordinated term loan. Proceeds were available to fund the early redemption of InnVest's $70.0 million Series C convertible debentures on June 3, 2014. Upon the payment of a standby fee, KingSett also provided InnVest with a facility to draw an additional $50.0 million subordinated non-revolving stand-by liquidity facility. Refer to *Related Party Transactions* for a discussion of the terms of these loans.

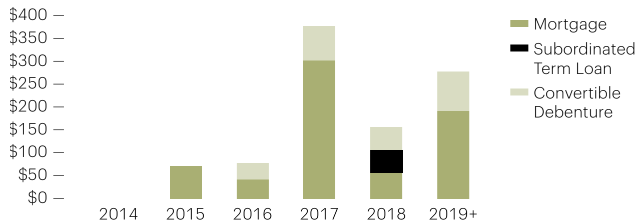
InnVest has made significant progress in 2014 in achieving its objective to reduce reliance on dilutive convertible debt. In June 2014, InnVest completed the early redemption of its $70.0 million Series C convertible debentures. In July 2014, InnVest purchased for cancellation $28.8 million of its Series G convertible debentures following the completion of a tender offer. Refer to *Unit Information*. At September 30, 2014, InnVest has four series of fixed-rate convertible debentures totalling $247.6 million (December 31, 2013 – $346.4 million).

Prior year financing activities included the refinancing of a $183.8 million mortgage. The mortgage carried its then-existing interest weighted average interest rate of 6.0% through May 2014 (the original maturity date) and approximately 5.1% currently.

As part of certain mortgage agreements, InnVest has access to a loan facility for up to $30.0 million to fund 65% of capital expenditures incurred at certain of its hotels. At September 30, 2014, InnVest has remaining capacity on this facility of $14.4 million (December 31, 2013 – $26.7 million), of which approximately $3.3 million is available to be drawn based on capital expenditures incurred to-date.

At September 30, 2014, InnVest has approximately $72.7 million (December 31, 2013 – $121.0 million) of mortgages secured by conduit financing maturing in 2015.

The following chart highlights InnVest's mortgage (excluding those held for sale), subordinated term loans and convertible debentures maturity schedule at September 30, 2014.



Based on recent negotiations with lenders and its knowledge and experience refinancing mortgages and accessing the public markets, management plans to address its debt maturities in the normal course of business. Continued contraction of interest rate spreads, along with decreases in bond yields since the end of 2013, are allowing borrowing rates for the industry to remain attractive.

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 a level of 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, 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 credit facility covenant, which limits aggregate indebtedness (including convertible debentures) to a level up to 70% of gross asset value.

At September 30, 2014, InnVest's leverage excluding and including convertible debentures was 49.7% (December 31, 2013 – 44.0%) and 65.8% (December 31, 2013 – 65.5%), respectively.

Total assets per Consolidated Balance Sheet	$ 1,186,098	
Accumulated depreciation and amortization	350,125	
Gross Asset Value	$ 1,536,223	
Book value of mortgages and bridge loan(1)	$ 763,858	49.7%
Convertible debentures(2)	247,608	16.1%
Total debt	$ 1,011,466	65.8%

(1) Mortgages payable are gross of financing issuance costs and include $12.4 million in mortgages related to assets held for sale.
(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. InnVest has a target to reduce debt leverage (total debt to gross asset value) to below 60% and to reduce reliance on dilutive convertible debt. Significant progress has been made with respect to the reduction in reliance on dilutive convertible debt (refer to – *Secured Long-Term Debt, Subordinated Term Loans and Convertible Debentures*). This debt leverage reduction is planned to be accomplished through asset sales, regular principal amortization repayments and potential equity issuance transactions depending on market conditions. InnVest remains committed to achieving its leverage reduction target over time but in the short term debt leverage may remain approximately unchanged as it has year to date in 2014, or increase temporarily in the future pending optimal permanent financing, in order to take advantage of asset acquisition opportunities with attractive potential future return on investment characteristics. Accordingly, there is no assurance that InnVest will achieve its targeted leverage reduction in a set timeframe.

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 September 30, 2014. InnVest has no off-balance sheet items.

	2014	2015	2016	2017	2018	2019 and thereafter	Contractual cash flows(1)
Accounts payable and other liabilities	$ 61,913	$ –	$ –	$ –	$ –	$ –	$ 61,913
Liabilities related to assets held for sale	13,813	–	–	–	–	–	13,813
Mortgage payable							
– principal(2)	4,061	85,629	59,970	311,302	60,462	195,507	716,931
– interest(3)	10,307	39,105	36,137	21,415	12,250	18,321	137,535
Bank indebtedness							
– principal(2)	–	32,300	–	–	–	–	32,300
– interest(3)	404	673	–	–	–	–	1,077
Bridge loan							–
– principal(2)	250	2,000	–	–	–	–	2,250
– interest(3)	30	26	–	–	–	–	56
Convertible debentures							–
– principal	–	–	36,358	75,000	50,000	86,250	247,608
– interest	3,805	15,220	13,379	12,766	6,828	2,695	54,693
Long-term land leases	460	1,706	1,706	1,706	1,710	73,065	80,353
Capital commitments	16,253	–	–	–	–	–	16,253
Total	$ 111,296	$ 176,659	$ 147,550	$ 422,189	$ 131,250	$ 375,838	$1,364,782

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.
(2) Principal includes regular amortization and repayments.
(3) Interest amounts for floating rate debt is based on interest rates prevailing at September 30, 2014

As at September 30, 2014, InnVest has leasehold interests in 7 of its hotels. The leaseholds require minimum annual average lease payments and expire between 2018 and 2088. At September 30, 2014, the average term of InnVest's leaseholds exceeded 35 years. During the second quarter of 2014, InnVest sold three leasehold interests in hotels.

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 in cases where the management company provides the hotel brand which may include investments in hotels.

DISTRIBUTIONS TO UNITHOLDERS

For the nine months ended September 30, 2014, distributions totalling $28.3 million were declared ($0.2997 per unit), relatively unchanged from the prior year (2013 – $28.1 million or $0.2997 per unit).

For the twelve months ended September 30, 2014, InnVest's payout ratio was 85.0% of AFFO as compared to 81.1% for the annual 2013 period. The higher payout ratio results from reduced year-to-date Hotel GOP owing primarily to the temporary impact of renovation displacement.

	Twelve months ended September 30, 2014	2013	2012	2011	Years ended December 31, 2010	2009
						As reported pursuant to Canadian GAAP
AFFO	**$ 44,319**	$ 46,185	$ 44,619	$ 46,440	$ 41,776	$ 51,524
Distributions	**37,685**	37,465	37,383	44,896	44,384	51,297
AFFO in excess of (less than) distributions	**6,634**	8,720	7,236	1,544	(2,608)	227
Non-cash distributions made through the DRIP	**2,412**	500	143	309	1,688	2,756
AFFO in excess of (less than) cash distributions	**$ 9,046**	$ 9,220	$ 7,379	$ 1,853	$ (920)	$ 2,983
AFFO Payout ratios:						
Total distributions	**85.0%**	81.1%	83.8%	96.7%	106.2%	99.6%
Cash distributions (excluding DRIP)	**79.6%**	80.0%	83.5%	96.0%	102.2%	94.2%

Liquidity to fund distributions is generated from cash flow from operations, cash on hand, capacity under available credit facilities 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 credit facilities given the seasonality of revenues in contrast to costs which are fixed throughout the year.

Distributions to unitholders are approved by InnVest's Board of Trustees. Each month, InnVest may distribute such percentage of its estimated adjusted funds from operations as the Trustees determine in their discretion. In exercising their discretion to approve the level of distributions, the Trustees rely on 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* on page 22.

UNIT INFORMATION

Since January 1, 2014, InnVest issued units as follows:

Units outstanding, January 1, 2014	93,830,897
Distribution reinvestment plan	427,797
Payment in kind related to long-term debt(1)	671,779
Executive compensation plan	44,988
Trustee compensation plan	16,861
Units outstanding, September 30, 2014	94,992,322
Issued subsequent to the quarter	
Payment in kind related to long-term debt(1)	48,532
Distribution reinvestment plan	82,427
Units outstanding, November 4, 2014	95,123,281

(1) Related to up-front fee and commitment fee and the payment in kind for a portion of monthly interest payable on the KingSett loan. Refer to *Related Party Transactions.*

The following table summarizes the number of units issuable based on the convertible debentures outstanding at September 30, 2014.

Convertible debentures	Maturity date	Conversion strike price	Balance outstanding	Units to be issued upon conversion
Series D – 6.75%	March 31, 2016	$ 5.70	$ 36,358	6,378,596
Series E – 6.00%	September 30, 2017	$ 8.00	$ 75,000	9,375,000
Series F – 5.75%	March 30, 2018	$ 9.45	$ 50,000	5,291,005
Series G – 6.25%(1)	March 31, 2019	$ 7.50(1)	$ 86,250(1)	11,500,000(1)

(1) Refer to 'Series G Tender and Amendments' below.

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.

Series G Tender and Amendments

On July 31, 2014, InnVest completed a substantial issuer bid to purchase for cancellation $28.8 million of the outstanding principal amount of its Series G convertible unsecured subordinated debentures (the "Series G Debentures") at a purchase price of $1,080 for each $1,000 in principal amount (the "Series G Offer").

In connection with the Series G Offer, at a meeting for holders of the Series G Debentures on July 25, 2014, debentureholders approved certain amendments to the trust indenture governing the Series G Debentures as follows:

(i) increase the rate of coupon interest payable per annum on the Series G Debentures from 5.75% to 6.25% effective as of the commencement of the next interest accrual period, being September 30, 2014; and

(ii) increase the conversion price for each InnVest unit to be issued upon the conversion of one Series G Debenture from $5.80 to $7.50 per unit.

Redemptions

On June 3, 2014, InnVest completed the early redemption of its $70.0 million Series C 5.85% Debentures (due August 1, 2014).

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. Effective September 2014, InnVest amended its DRIP to provide it 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 and Trustee Compensation Programs

InnVest's executive compensation program typically provides for the grant of restricted units to certain senior employees. Units granted vest equally on the third and fourth anniversary of the effective date of grant. At September 30, 2014, there were 57,685 unvested executive units granted under the plan (December 31, 2013 – 27,210). Given his short-term compensation agreement, InnVest's Chief Executive Officer is issued units which vest immediately upon grant, rather than vesting over the three and four year periods. In March 2014, 40,000 units were granted to the Chief Executive Officer (2013 – 8,000).

InnVest has set aside 350,000 units in reserve for Board of Trustee compensation. At September 30, 2014, the balance in this reserve account is 152,745 units (December 31, 2013 – 169,606). In September 2014, InnVest's Board of Trustees approved an increase of this reserve to 1% of InnVest's outstanding units from time to time in connection with proposed changes to the Board of Trustees compensation structure. The listing of up to an additional 797,412 units for this purpose, which would increase the reserve account balance to 950,157 units, was conditionally approved by the Toronto Stock Exchange in October 2014, subject to unitholder approval and other customary conditions.

RELATED PARTY TRANSACTIONS

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

Westmont Hospitality Canada Limited

InnVest has an asset supervisory agreement relating to certain hotels owned by InnVest and not managed by Westmont. This agreement entitles Westmont to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of Hotel GOP, subject to an annual minimum fee until November 30, 2014. Asset management of InnVest will be internalized without termination costs, effective November 30, 2014. As a result, InnVest will no longer pay asset management fees to Westmont effective December 1, 2014. During the nine months ended September 30, 2014, InnVest paid $1.1 million in asset management fees to Westmont.

InnVest also has a management agreement for hotel management and accounting services and an administrative services agreement with Westmont. Westmont is controlled by a minority unitholder of InnVest and is currently entitled to appoint two members to the Board of Trustees.

On April 21, 2014, InnVest finalized an amendment and extension of the hotel management agreement on the following terms:

- The term of the agreement was extended until April 21, 2024 and may be renewed on the mutual consent of both parties.
- Westmont no longer has the exclusive right to manage InnVest's acquired hotels. InnVest may consider appointing Westmont to manage any additional hotels on a case-by-case basis. Westmont was released from its non-compete arrangements.
- InnVest has the ability to terminate Westmont's appointment to manage any or all hotels for any reason on 60 days' prior written notice with respect to any or all of the hotels managed by Westmont, subject to a termination payment equal to three times the sum of all management fees earned or payable (as such fees are defined in the management agreement) in respect of the hotels no longer covered by the management agreement due to such termination during the 12-month period immediately preceding the month in which the termination occurs (subject to adjustment in certain circumstances).

- Effective April 1, 2014, Westmont's base management fee has been reduced to 2.95% from 3.375% and a new incentive fee structure has been adopted that will allow Westmont to earn up to 3.80% of the gross revenue of managed hotels per year.
  - Westmont is entitled to an annual base incentive fee equal to 0.425% of gross revenues, to be adjusted at the end of the year as follows:
    - For each percentage point (1.0%) that the year-over-year net operating cash flow of the managed hotels increases, the base incentive fee will be increased by 2.8333 basis points, to a maximum incentive fee of 0.85%;
    - For each percentage point (1.0%) that the year-over-year net operating cash flow of the managed hotels decreases, the base incentive fee will be reduced by 2.8333 basis points, to a minimum incentive fee of 0%; and
    - Where there is less than one percentage point change (1.0%) in the year-over-year net operating cash flow of the managed hotels, the incentive fee will remain unchanged at 0.425%.

In accordance with the hotel management agreement, in addition to the base management fee and incentive fee, Westmont is entitled to the following fees in respect of hotels that it manages (i) purchasing fees based on 5% of the cost of certain goods and supplies; (ii) construction fees based on 5% of the cost of construction and capital expenditures; and (iii) per guest room fees for accounting services in respect of the hotel businesses. The amended and restated management agreement did not result in any changes to the basis for such additional fees.

The amended and restated management agreement allows InnVest to request Westmont's services in connection with construction work to be performed at hotels that it does not manage and for accounting services in respect of InnVest's business on a case-by-case basis, as may be agreed to by both parties. Westmont is also entitled to be reimbursed for certain reasonable out-of-pocket costs and expenses incurred in the performance of its duties under the management agreement, provided that such costs have been identified in an approved budget or are otherwise approved in writing.

Westmont also provides certain administrative and support services, including the provision of: (i) office space and office equipment; (ii) communications and computer systems; and (iii) such administrative and secretarial support services as reasonably required from time to time to support InnVest's ongoing administration and operation. Such services are provided on a cost recovery basis pursuant to a budget.

Total management and other fees paid to Westmont during the nine months ended September 30, 2014 were $14.9 million (2013 – $14.5 million). Total fees paid in 2014 reflect the higher project management fees associated with the renovation activities underway during the year as well as one-time termination costs associated with asset divestitures. These are somewhat offset by reduced management fees following divestitures. These fees represent approximately 68% (2013 – 66%) of total hotel management and other fees paid by InnVest to the four hotel management companies with which it partners.

KingSett Capital

On April 24, 2014, InnVest closed a credit agreement with KingSett (the "Credit Agreement") for a $50.0 million subordinated term loan facility (the "Term Loan"). KingSett has also provided an option to draw an additional $50.0 million subordinated non-revolving stand-by liquidity facility (the "Liquidity Loan"). The Term Loan and the Liquidity Loan are each outstanding for four-year terms and are supported by a general security agreement. A trustee of the REIT has an indirect controlling interest in KingSett.

The Term Loan was subject to (a) an up-front fee of $1.5 million (the "Up-Front Fee"), and (b) regular interest payments of 8.75% per annum (the "Term Interest Payments"). In addition, in consideration for KingSett agreeing to provide InnVest with the Liquidity Loan, InnVest paid KingSett a commitment fee of $1.5 million (the "Commitment Fee"). If drawn, the Liquidity Loan will be subject to regular interest payments of 9.5% per annum (the "Liquidity Interest Payments").

In connection with the Credit Agreement, InnVest issued 573,361 units in satisfaction of the Up-Front Fee and the Commitment Fee in April 2014. In addition, in the first year that the Term Loan is outstanding, a portion of the Term Interest Payments due in that year equal to 3% per annum will be payable in units at the option of KingSett and, if the Liquidity Loan is drawn, a portion of the Liquidity Interest Payments in that year equal to 3.75% per annum will be payable in units at the option of KingSett. During the three subsequent years, the same portions of the Term Interest Payments and the Liquidity Interest Payments will be payable in units if mutually agreed by KingSett and InnVest. The Liquidity Loan availability expires in December 2014. 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. Year-to-date through September 30, 2014, InnVest issued 98,418 units in satisfaction of the Term Interest Payments.

In October 2014, InnVest announced that it had entered into an agreement to acquire a 20% interest in the Royal York Hotel through a joint venture with KingSett Real Estate Growth LP No. 5 ("KingSett LP No. 5) (a fund managed by KingSett), and Ivanhoé Cambridge. KingSett LP No. 5, with its 60% interest in the joint venture, will become the managing partner of the joint venture. InnVest will become the hotel asset manager and will oversee the property's hospitality operations. Ivanhoé Cambridge will retain a 20% interest in the property. As part of the joint venture agreement, no fees will be paid between InnVest and KingSett LP No. 5 for the services provided by each.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS FINANCIAL MEASURES

InnVest's consolidated 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")

GOP is defined as revenues less hotel and other real estate properties expenses. GOP reflects results of operations from InnVest's two business segments: hotel ownership and other real estate assets. For the nine months ended September 30, 2014 and 2013, InnVest's hotel ownership operations accounted for all of its total GOP.

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 consolidated 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.

GOP has been calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Revenues	**$ 148,434**	$ 161,133	**$ 409,096**	$ 446,231
Hotel and other real estate properties				
Operating expenses	**85,199**	96,107	**262,382**	288,592
Property taxes, rent and insurance	**8,967**	11,511	**29,818**	36,515
Management fees	**6,029**	6,136	**16,318**	17,211
	100,195	113,754	**308,518**	342,318
Gross operating profit	**$ 48,239**	$ 47,379	**$ 100,578**	$ 103,913

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 IFRS, 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 (loss) and adjusting for:

i) Depreciation, amortization and accretion, excluding amortization of deferred financing costs;
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); and
vi) 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 income (loss) to FFO is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
Net income (loss)	**$ 16,508**	$ 13,946	**$ (13,545)**	$ (7,215)
Add/(deduct):				
Depreciation and amortization	**20,804**	20,137	**60,259**	61,309
Deferred income tax (recovery) expense	**–**	(22)	**–**	(344)
Unrealized changes in the fair value of financial liabilities	**1,782**	(992)	**9,903**	3,827
Distributions included in corporate and administrative expense	**36**	36	**109**	109
Gain on sale of assets, net	**(555)**	(602)	**(4,564)**	(8,702)
Writedown (recovery) of hotel properties, net	**4,955**	(999)	**4,464**	2,386
Gain on redemption and amendment of convertible debentures	**(11,810)**	–	**(11,628)**	–
Non-recurring costs:				
Proxy defense and settlement costs	**–**	–	**3,594**	–
Litigation settlement	**–**	–	**(500)**	–
FFO	**$ 31,720**	$ 31,504	**$ 48,092**	$ 51,370
FFO per unit:				
Basic	**$ 0.334**	$ 0.336	**$ 0.510**	$ 0.548
Diluted	**$ 0.278**	$ 0.270	**$ 0.467**	$ 0.499
Weighted average units outstanding:				
Basic	**94,863,069**	93,770,602	**94,388,753**	93,720,441
Diluted	**130,628,458**	139,791,865	**128,513,979**	125,161,797

ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

InnVest uses AFFO (previously referred to as distributable income), 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;
ii) The reserve for replacement of furniture, fixtures and equipment and capital improvements; and
iii) Any other adjustment determined by the Board of Trustees in their discretion.

A reconciliation of FFO to AFFO is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	**2014**	2013
FFO	**$ 31,720**	$ 31,504	**$ 48,092**	$ 51,370
Add/(deduct):				
Non-cash portion of mortgage interest expense	**1,010**	553	**2,291**	1,606
Non-cash portion of convertible debenture interest and accretion	**884**	1,166	**2,944**	3,676
FF&E reserve	**(6,295)**	(6,741)	**(17,181)**	(18,640)
AFFO	**$ 27,319**	$ 26,482	**$ 36,146**	$ 38,012
AFFO per unit:				
Basic	**$ 0.288**	$ 0.282	**$ 0.383**	$ 0.406
Diluted	**$ 0.239**	$ 0.226	**$ 0.358**	$ 0.377
Weighted average units outstanding:				
Basic	**94,863,069**	93,770,602	**94,388,753**	93,720,441
Diluted	**130,628,458**	139,791,865	**119,138,979**	125,161,797

AFFO is also used by management and the Board of Trustees 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.

Reconciliation of cash from operating activities to AFFO	Nine months ended September 30, 2014	2013
Cash flow utilized in operating activities	**$ 41,098**	$ 51,770
Changes in non-cash working capital	**159**	(2,236)
Changes in non-cash items (Net gain on sale of assets, Net gain on redemption and amendment of convertible debentures, Unrealized loss on liabilities presented at fair value, Net writedown (recovery) of hotel properties)	**1,825**	2,489
Proxy defense and settlement costs	**3,594**	–
Others, net	**6,651**	4,629
FF&E Reserve	**(17,181)**	(18,640)
AFFO	**$ 36,146**	$ 38,012

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, 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, 2013. For a discussion of risk factors that have been identified, readers should refer to InnVest's 2013 Annual Report and InnVest's Annual Information Form dated March 19, 2014, 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.

Other than as noted below, the significant accounting policies used in the preparation of the Interim Financial Statements for the three and nine months ended September 30, 2014 are consistent with those reported in the audited consolidated financial statements for the year ended December 31, 2013.

Effective January 1, 2014, InnVest implemented accounting policy changes relating to amendments to IAS 32 – *Financial Instruments: Presentation and IFRIC 21 – Levies.* The adoption of these changes did not have a significant impact on InnVest's Interim Financial Statements.

IAS 32 – Financial Instruments: Presentation

Amendments to IAS 32 provide additional guidance on the presentation of offsetting financial assets and financial liabilities. The amendments present application guidance on the legal right to offset financial assets and liabilities and management's intent to settle on a net basis.

Amendments to IAS 36 – Impairment of assets

Amendments to IAS 36 require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard does not have a significant impact on InnVest's condensed interim consolidated financial statements.

IFRIC 21 – Levies

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

FUTURE ACCOUNTING CHANGES

InnVest has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its consolidated financial statements and note disclosures.

IFRS 9, Financial instruments

IFRS 9, *Financial Instruments will replace IAS 39, Financial Instruments: Recognition and Measurement* for classification and measurement of financial assets and liabilities.

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 represents the completion of the IASB's project on financial instruments and it includes the requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This final version of IFRS 9 supersedes all prior versions of IFRS 9 and is mandatorily effective for annual periods beginning on or after January 1, 2018, with early application permitted. The impact of this ongoing project will be assessed by InnVest as remaining phases of the project are completed. Early adoption of IFRS 9 is permitted, subject to certain conditions.

IFRS 11, Joint Arrangements

In May 2014, the IASB issued Amendments to IFRS 11, "Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations". The objective of the amendments is 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, "Business Combinations". 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 is effective for annual periods beginning on or after January 1, 2016. InnVest is currently evaluating the impact to the consolidated financial statements.

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: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods on or after January 1, 2017. InnVest is currently evaluating the impact to the consolidated financial statements.

CONTROLS AND PROCEDURES

Management of InnVest is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. In accordance with National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings,* 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 September 30, 2014, and based on that assessment, have concluded that InnVest's internal controls over financial reporting were appropriately designed and were operating effectively.

During the nine months ended September 30, 2014, there were no changes in InnVest's internal controls over financial reporting which have significantly affected, or are reasonably likely to significantly affect, InnVest's internal controls over financial reporting.

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.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) (unaudited)	September 30, 2014	December 31, 2013
ASSETS		
Current assets		
Cash	**$ 22,032**	$ 20,261
Accounts receivable	**27,535**	28,788
Prepaid expenses and other assets	**12,257**	8,915
Finance lease receivable	**2,100**	6,413
Assets held for sale (Note 3)	**28,410**	58,658
	92,334	123,035
Non-current assets		
Restricted cash (Note 4)	**2,259**	6,760
Investment in joint venture (Note 5)	**1,572**	1,202
Hotel properties (Note 6)	**1,077,115**	1,135,503
Other real estate properties (Note 7)	**1,929**	1,964
Intangible assets (Note 8)	**10,889**	12,077
Total assets	**$ 1,186,098**	$ 1,280,541
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 9)	**$ 32,300**	$ –
Accounts payable and accrued liabilities	**61,913**	71,989
Distributions payable	**3,163**	3,125
Long-term debt (Note 10)	**88,438**	91,079
Convertible debentures (Note 11)	**–**	69,369
Other long-term obligations (Note 13)	**190**	177
Liabilities related to assets held for sale (Note 3)	**13,813**	30,652
	199,817	266,391
Non-current liabilities		
Long-term debt (Note 10)	**621,055**	583,009
Convertible debentures (Note 11)	**234,062**	259,604
Provisions (Note 12)	**8,368**	7,073
Other long-term obligations (Note 13)	**4,440**	4,010
Other liabilities (Note 14)	**12,656**	18,997
	1,080,398	1,139,084
UNITHOLDERS' EQUITY	**105,700**	141,457
	$ 1,186,098	$ 1,280,541

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in thousands of Canadian dollars, except per unit amounts) (unaudited)	**Three Months Ended September 30, 2014**	Three Months Ended September 30, 2013	**Nine Months Ended September 30, 2014**	Nine Months Ended September 30, 2013
Revenues (Note 24)	**$ 148,434**	$ 161,133	**$ 409,096**	$ 446,231
Hotel and other real estate properties				
Operating expenses (Note 20)	**85,199**	96,107	**262,382**	288,592
Property taxes, rent and insurance	**8,967**	11,511	**29,818**	36,515
Management fees (Note 20)	**6,029**	6,136	**16,318**	17,211
	100,195	113,754	**308,518**	342,318
Gross operating profit	**48,239**	47,379	**100,578**	103,913
Other expenses				
Corporate and administrative (Note 20)	**2,037**	1,140	**9,115**	3,824
Interest expense				
Mortgages and other debt	**11,855**	10,960	**34,452**	34,178
Convertible debentures	**4,542**	6,296	**16,716**	19,142
Joint venture income (Note 5)	**(1,846)**	(1,659)	**(3,932)**	(3,586)
Other income, net (Note 21)	**(12,398)**	(1,428)	**(16,854)**	(9,608)
Writedown (recovery) of hotel properties, net (Note 22)	**4,955**	(999)	**4,464**	2,386
Depreciation and amortization	**20,804**	20,137	**60,259**	61,309
Unrealized loss (gain) on liabilities presented at fair value (Note 23)	**1,782**	(992)	**9,903**	3,827
Income (loss) before income tax recovery	**16,508**	13,924	**(13,545)**	(7,559)
Income tax recovery	**–**	22	**–**	344
Net income (loss) and total comprehensive income (loss)	**$ 16,508**	$ 13,946	**$ (13,545)**	$ (7,215)
Net income (loss) per unit (Note 18)				
Basic	**$ 0.174**	$ 0.149	**$ (0.143)**	$ (0.077)
Diluted	**$ 0.161**	$ 0.139	**$ (0.143)**	$ (0.077)

The accompanying notes are an integral part of these 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, 2012	$ (407,630)	$ 643,320	$ 235,690
CHANGES DURING THE PERIOD			
Net loss and total comprehensive loss	(7,215)	–	(7,215)
Distributions to unitholders	(28,092)	–	(28,092)
Distribution reinvestment plan units issued	–	362	362
Vested executive compensation	–	399	399
Trustee compensation	–	121	121
Balance September 30, 2013	$ (442,937)	$ 644,202	$ 201,265
Balance December 31, 2013	**$ (502,923)**	**$ 644,380**	**$ 141,457**
CHANGES DURING THE PERIOD			
Net loss and total comprehensive loss	**(13,545)**	**–**	**(13,545)**
Distributions to unitholders	**(28,312)**	**–**	**(28,312)**
Distribution reinvestment plan units issued	**–**	**2,274**	**2,274**
Vested executive compensation	**–**	**210**	**210**
Trustee compensation	**–**	**83**	**83**
Issue of new units, net	**–**	**3,533**	**3,533**
Balance September 30, 2014	**$ (544,780)**	**$ 650,480**	**$ 105,700**

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	**Nine Months Ended September 30, 2014**	Nine Months Ended September 30, 2013
OPERATING ACTIVITIES		
Net loss	**$ (13,545)**	$ (7,215)
Add (deduct) items not affecting cash		
Depreciation and amortization	**60,259**	61,309
Gain on sale of assets, net (Note 21)	**(4,564)**	(8,702)
Gain on redemption and amendment of convertible debentures (Note 21)	**(11,628)**	–
Writedown of hotel properties, net (Note 22)	**4,464**	2,386
Unrealized loss on liabilities presented at fair value (Note 23)	**9,903**	3,827
Interest on mortgages and other debt	**34,452**	34,178
Convertible debentures interest and accretion	**16,716**	19,142
Interest expense paid	**(51,161)**	(51,981)
Deferred income tax recovery	**–**	(344)
Non-cash executive and trustee compensation	**293**	520
Share of net earnings from joint venture income (Note 5)	**(3,932)**	(3,586)
Changes in non-cash working capital (Note 19)	**(159)**	2,236
Cash generated from operating activities	**41,098**	51,770
FINANCING ACTIVITIES		
Proceeds from bank indebtedness	**32,300**	–
Repayment of long-term debt	**(107,236)**	(76,575)
Proceeds from long-term debt, net of issuance costs	**125,390**	4,680
Issue of convertible debentures, net of issuance costs	**–**	110,037
Redemption and cancellation of convertible debentures	**(102,547)**	(74,980)
Distributions to unitholders	**(26,000)**	(27,724)
Issue of new units, net	**3,533**	–
Operating loan repayments	**–**	(15,100)
Cash utilized in financing activities	**(74,560)**	(79,662)
INVESTING ACTIVITIES		
Capital expenditures (Note 24)	**(57,800)**	(41,227)
Additions to intangible assets	**(129)**	(110)
Dividends received from investment in joint venture (Note 5)	**3,562**	3,330
Proceeds from sale of assets	**89,475**	93,050
Payment of costs associated with sale of assets	**(4,376)**	(13,263)
Decrease in restricted cash	**4,501**	1,197
Cash generated from investing activities	**35,233**	42,977
Increase in cash during the period	**1,771**	15,085
Cash, beginning of the period	**20,261**	6,466
Cash, end of the period	**$ 22,032**	$ 21,551

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

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 (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 September 30, 2014, the REIT owned 112 Canadian hotels 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 September 30, 2014, 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 5090 Explorer Drive, Suite 700, Mississauga, Ontario L4W 4T9.

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, 2013, except as described below. These financial statements should be read in conjunction with InnVest's consolidated financial statements for the year ended December 31, 2013.

b) Estimates

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the REIT's accounting policies. The critical accounting estimates and judgments have been set out in Note 2 of InnVest's consolidated financial statements for the year ended December 31, 2013.

c) Application of new and revised accounting standards

Effective January 1, 2014, InnVest has applied the following new and revised IFRSs in these unaudited condensed interim consolidated financial statements.

AMENDMENTS TO IAS 32 – FINANCIAL INSTRUMENTS PRESENTATION

The amendments provide additional guidance on the presentation of offsetting financial assets and financial liabilities. The amendments present application guidance on the legal right to offset financial assets and liabilities and management's intent to settle on a net basis. Retrospective application is required. The adoption of the amendments to IAS 32 did not have an impact on InnVest's condensed interim consolidated financial statements.

AMENDMENTS TO IAS 36 – IMPAIRMENT OF ASSETS

The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard does not have a significant impact on InnVest's condensed interim consolidated financial statements.

IFRIC 21 – LEVIES

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The adoption of IFRIC 21 did not have a significant impact on InnVest's condensed interim consolidated financial statements.

d) Future accounting changes

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 represents the completion of the IASB's project on financial instruments and it includes the requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This final version of IFRS 9 supersedes all prior versions of IFRS 9 and is mandatorily effective for annual periods beginning on or after January 1, 2018, with early application permitted.

AMENDMENTS TO IFRS 11 – JOINT ARRANGEMENTS

In May 2014, the IASB issued Amendments to IFRS 11, "Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations". The objective of the amendments is 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, "Business Combinations". 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 is effective for annual periods beginning on or after January 1, 2016. InnVest is currently evaluating the impact to the consolidated financial statements.

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: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 is effective for annual periods on or after January 1, 2017. InnVest is currently evaluating the impact to the consolidated financial statements.

3. ASSETS HELD FOR SALE

Assets held for sale at September 30, 2014 include five hotels. All assets and liabilities relating to these hotel properties have been classified to current assets and current liabilities and are outlined in the table below:

	September 30, 2014	December 31, 2013
Assets		
Accounts receivable	**$ 705**	$ 1,522
Prepaid expenses and other assets	**600**	416
Hotel properties (net of accumulated depreciation of $10,035; 2013 – $17,649) (Note 6)	**27,041**	56,656
Intangible assets (net of accumulated amortization of $190; 2013 – $190) (Note 8)	**64**	64
Total assets	**$ 28,410**	$ 58,658
Liabilities		
Accounts payable and accrued liabilities	**$ 1,436**	$ 3,310
Long-term debt (Note 10)	**12,377**	27,165
Employee retiring allowance (Note 13)	**–**	177
Total liabilities	**$ 13,813**	$ 30,652

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Once they are 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. During the three months ended September 30, 2014, InnVest transferred three hotels classified as held for sale to hotel properties since they no longer met the criteria for presentation as held for sale which resulted in a catchup of depreciation expense of $1,398 which has been included in the line item 'Depreciation and amortization' in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

The land amount at September 30, 2014 included in hotel properties held for sale is $5,261 (December 31, 2013 – $9,854). The operations of these hotels are not presented as discontinued operations on the condensed interim consolidated statement of net income (loss) and comprehensive income (loss) as they do not represent a separate geographical area of operations or a separate major line of business.

Sale of assets

During the nine months ended September 30, 2014, InnVest sold sixteen hotels classified as 'Assets held for sale' for aggregate net proceeds after closing costs of $85,099. InnVest repaid $16,471 of mortgages relating to these assets resulting in net cash proceeds of $68,628. InnVest recorded a corresponding net gain on sale of $4,564 which was included in 'Other income' (Note 21) in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). InnVest also recorded a reversal of a previous impairment of $2,786 relating to four of these assets sold which has been included in 'Writedown of hotel properties, net' (Note 22), in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

Impairment review in the period

Each reporting period, InnVest carries out a review of the fair value less costs to sell of its assets held for sale. During the nine months ended September 30, 2014, InnVest's review led to the recognition of an impairment loss of $2,000 (2013 – $2,550 related to four hotel properties held for sale) related to a hotel property held for sale. The impairment loss has been included in 'Writedown of hotel properties, net' (Note 22), in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

4. RESTRICTED CASH

The restricted cash of $2,259 (December 31, 2013 – $6,760) is being held by InnVest to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

5. INVESTMENT IN JOINT VENTURE

InnVest holds a 50% interest in the ownership of 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. The transfer of unrestricted funds from CHC is approved by the joint venture partners. The following table summarizes the movement of InnVest's joint venture investment:

	Investment in Joint Venture
Opening balance, January 1, 2013	**$ 1,265**
Add:	
InnVest's 50% share of CHC's net income for the year ended December 31, 2013	4,433
Less:	
Dividends received	(4,496)
Closing balance, December 31, 2013	**$ 1,202**
Add:	
InnVest's 50% share of CHC's net income for the nine months ended September 30, 2014	3,932
Less:	
Dividends received	(3,562)
Closing balance, September 30, 2014	**$ 1,572**

6. HOTEL PROPERTIES

	Building and Leaseholds	Building Finishes	Electrical and Mechanical	Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2014	$ 831,647	$ 295,421	$ 202,140	$ 99,940	$ 1,429,148
Derecognition of assets	–	–	–	(6,253)	(6,253)
Additions	3,348	37,515	2,983	13,921	57,767
Fair value of decommissioning and restoration provision (Note 12)	1,322	–	–	–	1,322
Write-down of asset to recoverable amount (Note 22)	(2,751)	(801)	(1,488)	(210)	(5,250)
Reclass from assets held for sale (Note 3)	4,616	4,592	7,713	1,609	18,530
Reclass to assets held for sale (Note 3)	(51,894)	(21,159)	(16,208)	(7,325)	(96,586)
Balance at September 30, 2014	786,288	315,568	195,140	101,682	1,398,678
Accumulated depreciation					
Opening balance at January 1, 2014	74,256	140,824	26,863	51,702	293,645
Derecognition of assets	–	–	–	(6,253)	(6,253)
Depreciation	13,408	29,905	5,248	10,348	58,909
Reclass from assets held for sale (Note 3)	688	2,284	916	899	4,787
Reclass to assets held for sale (Note 3)	(9,245)	(12,598)	(3,292)	(4,390)	(29,525)
Balance at September 30, 2014	79,107	160,415	29,735	52,306	321,563
Carrying value, September 30, 2014	**$ 707,181**	**$ 155,153**	**$ 165,405**	**$ 49,376**	**$ 1,077,115**

	Building and Leaseholds	Building Finishes	Electrical and Mechanical	Fixtures and Equipment	Total
Cost					
Opening balance at January 1, 2013	$ 894,454	$ 289,163	$ 223,410	$ 103,299	$ 1,510,326
Derecognition of assets	–	–	–	(12,302)	(12,302)
Additions	4,147	34,311	4,301	17,437	60,196
Fair value of decommissioning and restoration provision (Note 12)	(2,276)	–	–	–	(2,276)
Writedown of assets to recoverable amount	(16,634)	(3,223)	(3,537)	(1,406)	(24,800)
Reclass to assets held for sale (Note 3)	(48,044)	(24,830)	(22,034)	(7,088)	(101,996)
Balance at December 31, 2013	831,647	295,421	202,140	99,940	1,429,148
Accumulated depreciation					
Opening balance at January 1, 2013	58,801	113,860	22,068	53,278	248,007
Derecognition of assets	–	–	–	(12,302)	(12,302)
Depreciation	19,406	39,119	7,404	14,670	80,599
Reclass to assets held for sale (Note 3)	(3,951)	(12,155)	(2,609)	(3,944)	(22,659)
Balance at December 31, 2013	74,256	140,824	26,863	51,702	293,645
Carrying value, December 31, 2013	**$ 757,391**	**$ 154,597**	**$ 175,277**	**$ 48,238**	**$ 1,135,503**

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

The land amount included in land, building and leaseholds is $133,418 at September 30, 2014 (December 31, 2013 – $138,613). This amount is not depreciated. Hotel properties at September 30, 2014 include $3,243 relating to leased assets (December 31, 2013 – $7,343).

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. The discount rate used in measuring value-in-use is based on market conditions per individual hotel property and ranged from 9.0% to 10.5% at September 30, 2014 (December 31, 2013 – ranged from 9.75% to 10.5%).

During the nine months ended September 30, 2014, InnVest's review led to the recognition of an impairment loss of $5,250 relating to four hotels (2013 – $3,300 relating to two hotels). The impairment loss has been included in 'Writedown of hotel properties, net' (Note 22), in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). The impairment was triggered by changes in local market conditions including reduced cash flow projections. The recoverable amount was based on the value-in-use for two of the hotels by using a discount rate of 10% and the fair value less costs to sell was used for the other two hotels. Fair value was based on minimum price per room metrics for the market as well as cash flow and capital investment projections for the hotels (Level 3 of the fair value hierarchy).

7. OTHER REAL ESTATE PROPERTIES

Other real estate properties include a retail property and a retirement residence. The land amount included in land and building is $121 at September 30, 2014 (December 31, 2013 – $121). This amount is not depreciated.

As described in Note 6, a similar impairment review was performed on other real estate properties. No impairment was recognized for the nine months ended September 30, 2014 (2013 – $nil).

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost			
Opening balance at January 1, 2014	$ 2,497	$ 77	$ 2,574
Additions	24	–	24
Balance at September 30, 2014	2,521	77	2,598
Accumulated depreciation			
Opening balance at January 1, 2014	573	37	610
Depreciation	51	8	59
Balance at September 30, 2014	624	45	669
Carrying value, September 30, 2014	**$ 1,897**	**$ 32**	**$ 1,929**

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost			
Opening balance at January 1, 2013	$ 6,981	$ 76	$ 7,057
Writedown of assets to recoverable amount	(4,500)	–	(4,500)
Additions	16	1	17
Balance at December 31, 2013	2,497	77	2,574
Accumulated depreciation			
Opening balance at January 1, 2013	376	26	402
Depreciation	197	11	208
Balance at December 31, 2013	573	37	610
Carrying value, December 31, 2013	**$ 1,924**	**$ 40**	**$ 1,964**

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

8. INTANGIBLE ASSETS

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance at January 1, 2014	$ 26,320	$ 2,320	$ 28,640
Reclass to assets held for sale (Note 3)	–	(212)	(212)
Additions	–	129	129
Balance at September 30, 2014	26,320	2,237	28,557
Accumulated amortization			
Opening balance at January 1, 2014	15,047	1,516	16,563
Reclass to assets held for sale (Note 3)	–	(199)	(199)
Amortization	987	317	1,304
Balance at September 30, 2014	16,034	1,634	17,668
Carrying value, September 30, 2014	**$ 10,286**	**$ 603**	**$ 10,889**

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance at January 1, 2013	$ 26,320	$ 2,498	$ 28,818
Derecognition of assets	–	(95)	(95)
Additions	–	171	171
Reclass to assets held for sale (Note 3)	–	(254)	(254)
Balance at December 31, 2013	26,320	2,320	28,640
Accumulated amortization			
Opening balance at January 1, 2013	13,731	1,392	15,123
Derecognition of assets	–	(95)	(95)
Amortization	1,316	409	1,725
Reclass to assets held for sale (Note 3)	–	(190)	(190)
Balance at December 31, 2013	15,047	1,516	16,563
Carrying value, December 31, 2013	**$ 11,273**	**$ 804**	**$ 12,077**

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

9. BANK INDEBTEDNESS

On May 23, 2014, InnVest obtained a bridge facility of up to $40,000 with a major banking institution which expires May 31, 2015. At September 30, 2014, the bridge facility was secured by 5 properties. The amount of the bridge facility is subject to a mortgageability test which is based on the operating results of the secured properties, calculated quarterly on a trailing four quarters basis. Based on the operating results of the secured properties for the four quarters ended September 30, 2014, InnVest had the ability to draw up to $34,850. The amount drawn on the bridge facility as at September 30, 2014 was $32,300. The bridge facility bears interest at either the Canadian bank prime rate plus 1.5% or the Canadian Bankers' Acceptance rate plus 2.5%.

10. LONG-TERM DEBT

	September 30, 2014	December 31, 2013
Mortgages payable	**$ 679,308**	$ 705,666
Subordinated term loan	**50,000**	–
Bridge loan	**2,250**	2,750
	731,558	708,416
Reclass to liabilities related to assets held for sale (Note 3)	**(12,377)**	(27,165)
	719,181	681,251
Less debt issuance costs	**(9,688)**	(7,163)
Total long-term debt	**709,493**	674,088
Less current portion	**(88,438)**	(91,079)
Net long-term debt	**$ 621,055**	$ 583,009

Substantially all of InnVest's assets have been pledged as security under debt agreements. At September 30, 2014, long-term debt had a weighted average interest rate of 5.7% (December 31, 2013 – 5.8%) and a weighted average effective interest rate of 6.1% (December 31, 2013 – 6.2%). The long-term debt is repayable in average monthly payments of principal and interest totalling $4,825 (December 31, 2013 – $4,955) and matures at various dates from July 1, 2015 to January 1, 2024.

Mortgages payable

On January 7, 2014, InnVest completed the refinancing of the Sheraton Eau Claire, Calgary for $68,000 at a fixed interest rate of 5.33% for a 10-year term. Incremental proceeds of $36,378 from the refinancing was used to partially repay a $45,398 mortgage that matured in April 2014 of which $3,591 related to 'Assets held for sale'.

In addition, InnVest has access to a loan facility for up to $30,000 to fund 65% of capital expenditures incurred at certain of its hotels. At September 30, 2014, InnVest had remaining capacity on the facility of $14,392 (December 31, 2013 – $26,686) of which $3,303 was available to be drawn.

During the fourth quarter of 2013, InnVest refinanced $183,756 of debt for a 67-month term (plus two one-year extension options). The mortgage is currently secured by 31 properties with a weighted average interest rate of 6.0% until May 2014 and approximately 5.1% thereafter and approximately $73,720 of fixed rate debt was exchanged to floating rate debt.

Subordinated term loan

On April 24, 2014, InnVest closed a credit agreement with KingSett Capital ("KingSett") (the "Credit Agreement") pursuant to which KingSett provided InnVest with a $50,000 subordinated four-year term loan (the "Term Loan").

The Term Loan was subject to an up-front fee of $1,500 ("the Up-Front Fee) and bears interest at 8.75% per annum (the "Term Interest Payments").

KingSett also provided InnVest with a facility to draw an additional $50,000 subordinated non-revolving stand-by liquidity facility (the "Liquidity Loan"). The Term Loan and Liquidity Loan are supported by a general security agreement. In consideration for KingSett agreeing to provide InnVest with the Liquidity Loan, a $1,500 commitment fee was paid upon the closing of the Term Loan (the "Commitment Fee"). If drawn, the Liquidity Loan will bear interest of 9.5% per annum (the "Liquidity Interest Payments"). At September 30, 2014, no amount was drawn on the Liquidity Loan. The Liquidity Loan availability expires in December 2014.

During the second quarter, InnVest issued 573,361 units in satisfaction of the Up-Front Fee and the Commitment Fee. During the first year that the Term Loan is outstanding, a portion of the Term Interest Payments due equal to 3% per annum will be payable in units at the option of KingSett. During the nine months ended, InnVest issued 98,418 units relating to the Term Interest Payments. During the three subsequent years, the same portions of the Term Interest Payments and the Liquidity Interest Payments will be payable in units if mutually agreed by KingSett and InnVest.

Bridge loan

InnVest has a bridge loan secured by one property which expires February 28, 2015. As at September 30, 2014, the bridge loan amount was $2,250 (December 31, 2013 – $2,750). The bridge loan requires quarterly principal payments of $250 starting June 30, 2014 and bears interest at the Canadian Bankers' Acceptance rate plus 4.0%.

Operating line

InnVest has an operating line of credit of up to $40,000 with a Canadian chartered bank which expires August 31, 2016. At September 30, 2014, the operating line is secured by 10 properties. The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties, calculated quarterly on a trailing four quarters basis. Based on the operating results of the secured properties for the four quarters ended September 30, 2014, InnVest had the ability to draw up to $37,506. The amount drawn on the operating line as at September 30, 2014 was $nil (December 31, 2013 – $nil). The operating line bears interest at either the Canadian bank prime rate plus 2.0% or the Canadian Bankers' Acceptance rate plus 3.0%.

Scheduled repayments of long-term debt are as follows:

	Regular Amortization	Due on Maturity	Total
Remainder of 2014	$ 4,311	$ –	$ 4,311
2015	15,541	72,088	87,629
2016	14,475	45,495	59,970
2017	8,543	302,759	311,302
2018	5,199	55,263	60,462
2019 and thereafter	8,654	186,853	195,507
	$ 56,723	**$ 662,458**	**$ 719,181**

The estimated fair value of InnVest's long-term debt at September 30, 2014 was approximately $743,141 (December 31, 2013 – $716,050). 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 $96,569 (December 31, 2013 – $28,489) which is subject to floating interest rates. Annual interest expense will increase by $966 for every 1% increase in the base Bankers' Acceptance rate.

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

11. CONVERTIBLE DEBENTURES

The convertible debentures outstanding as at September 30, 2014 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 September 30, 2014**	Outstanding Principal December 31, 2013
Series C	70,000	August 1, 2014	5.85%	6.66%	7.42%	$ 14.70	**–**	70,000
Series D	50,000	March 31,2016	6.75%	7.64%	9.41%	$ 5.70	**36,358**	36,358
Series E	75,000	September 30, 2017	6.00%	6.79%	7.75%	$ 8.00	**75,000**	75,000
Series F	50,000	March 30, 2018	5.75%	6.57%	7.40%	$ 9.45	**50,000**	50,000
Series G	86,250	March 31, 2019	6.25%	6.25%	9.40%	$ 7.50	**86,250**	115,000
Total convertible debentures							**$ 247,608**	$ 346,358

(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. The conversion option feature of the convertible debentures is recorded as a liability under 'Other liabilities' in the condensed interim consolidated balance sheets and is measured at fair value (see Note 14).

	September 30, 2014	December 31, 2013
Convertible debentures	**$ 247,608**	$ 346,358
Financing costs and accretion, net	**1,683**	(1,580)
Less allocation of conversion option value	**(15,229)**	(15,805)
	234,062	328,973
Less current portion	**–**	(69,369)
Convertible debentures – non-current	**$ 234,062**	$ 259,604

The fair value of InnVest's convertible debentures, estimated based on the market price for each series of convertible debentures as at September 30, 2014, is $253,402 (December 31, 2013 – $332,474).

Redemptions

On June 3, 2014, the $70,000 Series C 5.85% convertible debentures, with a maturity date of August 1, 2014 were redeemed and cancelled resulting in a loss of $182 included in 'Other Income, net' (Note 21). On July 31, 2014, $28,750 of Series G 5.75% convertible debentures, with a maturity date of September 30, 2019 were redeemed at a purchase price of $1,080 for each $1,000 in principal amount and cancelled resulting in a gain of $1,227 included in 'Other Income, net' (Note 21). On July 31, 2014, the fair value of the conversion option relating to the Series G convertible debentures redeemed was $5,673.

Amendments

On July 31, 2014, the remaining $86,250 Series G 5.75% convertible debentures, with a maturity date of September 30, 2019 were amended to increase the rate of coupon interest payable per annum from 5.75% to 6.25% effective on September 30, 2014 and increased the conversion price for each InnVest unit to be issued upon the conversion of one Series G Debenture from $5.80 to $7.50 per unit. These amendments were considered a significant modification of the convertible debenture which resulted in a gain of $10,583 that has been included in 'Other Income, net' (Note 21). On July 31, 2014, the fair value of the conversion option immediately before the amendment was $17,020.

The scheduled convertible debentures maturities are as follows:

	Due on Maturity
Remainder of 2014	**$ –**
2015	**–**
2016	**36,358**
2017	**75,000**
2018	**50,000**
2019	**86,250**
	$ 247,608
Financing costs and allocation of conversion option value	**(13,546)**
	$ 234,062

12. PROVISIONS

	September 30, 2014	December 31, 2013
Opening balance, beginning of period	**$ 7,073**	$ 9,349
Increase (decrease) to 'Hotel properties':		
Other	**(27)**	–
Effect of changes in the discount rate (Note 6)	**1,322**	(2,276)
Ending balance, end of period	**$ 8,368**	$ 7,073

The entire provision of $8,368 relates to InnVest's decommissioning and restoration obligation. The provision for decommissioning and restoration relates 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 September 30, 2014, the liability has been discounted at a rate of 2.67% based on the Bank of Canada long-term bond yields (December 31, 2013 – 3.2%). 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 of the discount rate are capitalized to buildings and amortized over the remaining useful life.

13. OTHER LONG-TERM OBLIGATIONS

	September 30, 2014	December 31, 2013
Finance lease	$ 821	$ 992
Other lease obligations	266	281
Employee retiring allowance	1,187	1,187
Employee benefit plans	2,356	1,904
Total other long-term obligations	$ 4,630	$ 4,364
Reclass to assets held for sale (employee retiring allowance) (Note 3)	–	(177)
Less current portion	(190)	(177)
Other long-term obligations – non-current	$ 4,440	$ 4,010

InnVest has one 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

	September 30, 2014	December 31, 2013
Exchangeable units	$ 1,927	$ 1,695
Convertible debentures holders' conversion option (Note 16)	10,575	17,227
Unvested executive compensation	154	75
Other liabilities	$ 12,656	$ 18,997

Exchangeable units

As part of an acquisition made in 2005, InnVest granted 362,869 exchangeable units ("Exchangeable units") to a third party. The Exchangeable units receive a monthly cash payment equal to the value of the cash distributions that would have been paid on the InnVest units if they had been issued on the date of grant. The Exchangeable units are exchangeable into InnVest units with three business days of prior written notice to InnVest or on August 2, 2015. The Exchangeable units are presented as liabilities at their fair value based on the market price of InnVest units. During the nine months ended September 30, 2014, distributions totaling $109 (2013 – $109) were paid on the Exchangeable units and are included in 'Corporate and administrative' expenses in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

Convertible debenture holders' conversion option

InnVest has separated the conversion option component for each of its series of convertible debentures which are presented as 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.

Executive compensation plan

The senior executives participate in an incentive plan that involves the grant of InnVest units which vest over time. Upon vesting, the payments are satisfied through the issuance of units. Unvested units are presented as 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 units.

15. CAPITAL MANAGEMENT

InnVest manages its capital, which is defined as the aggregate of unitholders' equity and debt, under the terms of the Declarations of Trust (the "DOT"). InnVest's capital management objectives are (i) to ensure compliance with debt and investment restrictions outlined in its DOT as well as external existing debt covenants, (ii) to allow for the implementation of its disposition strategy and hotel property refurbishment program, and (iii) to build long-term unitholder value. Issuances of equity and debt are approved by the Board of Trustees through their review and approval of InnVest's annual business plan, along with periodic changes to the approved plans throughout each year.

At September 30, 2014, 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 70% 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 September 30, 2014, InnVest's leverage excluding and including convertible debentures was 49.7% and 65.8%, respectively, calculated as follows:

	September 30, 2014		December 31, 2013	
Total assets per consolidated balance sheet		**$1,186,098**		$ 1,280,541
Accumulated depreciation and amortization		**350,125**		328,657
Gross asset value		**$1,536,223**		$ 1,609,198
Book value of long-term debt and bridge facility (Notes 9 and 10)[1]	**$ 763,858**	**49.7%**	$ 708,416	44.0%
Convertible debentures (Note 11)[2]	**247,608**	**16.1%**	346,358	21.5%
Total indebtedness	**$1,011,466**	**65.8%**	$ 1,054,774	65.5%

(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; and
(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 the unitholders' equity.
(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 Canadian chartered bank with the following covenants:

		Threshold	September 30, 2014	Capacity[1]	December 31, 2013
(i)	Total indebtedness (including convertible debentures) as a percentage of gross assets	< 70.0%	**65.8%**	**$ 64,940**	65.5%
(ii)	Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense[2]	> 1.8 x	**2.1 x**	**$ 18,018**	2.1 x
(iii)	Trailing 12 months consolidated EBITDA to consolidated debt service[3]	> 1.5 x	**1.6 x**	**$ 9,163**	1.6 x
(iv)	Unitholders' equity plus accumulated depreciation less 'Intangible assets'	> $ 300,000	**$ 444,872**	**$ 144,872**	$ 457,973

(1) Reflects additional capacity (for debt, EBITDA or unitholders' equity, as applicable) before exceeding the covenant threshold at September 30, 2014.
(2) Consolidated interest expense excludes non-cash portion of mortgage interest expense and non-cash portion of convertible debenture interest and accretion.
(3) Consolidated debt service includes consolidated interest expense plus regular principal payments of $13,596.

16. FINANCIAL INSTRUMENTS

Risk management

In the normal course of business, InnVest is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, include the following:

INTEREST RATE RISK

The average term to maturity of InnVest's aggregate long-term debt and convertible debentures exceeds three years. This strategy reduces InnVest's exposure to re-pricing risk resulting from short-term interest rate fluctuations in any one year. Management believes that such a strategy will provide the most effective interest rate risk management for debt.

InnVest's floating rate debt balance is monitored by management to minimize InnVest's exposure to interest rate fluctuations. As at September 30, 2014, InnVest's floating rate debt balance of $96,569 (December 31, 2013 – $28,489) is approximately 13.3% (December 31, 2013 – 4.0%) of total long-term debt, excluding convertible debentures.

CREDIT RISK

Credit risk relates to the possibility that hotel guests, either individual or corporate, do not pay the amounts owed to InnVest. InnVest mitigates this risk by limiting its exposure to customers allowed to pay by invoice after check out ("direct bill"). InnVest reviews accounts receivable regularly and the allowance for doubtful accounts is adjusted for any balances which are determined by management to be uncollectable. This provision adjustment is expensed in operating expenses. The following summarizes accounts receivable related balances:

	September 30, 2014	December 31, 2013
Accounts receivable	**$ 27,535**	$ 28,788
Allowance for doubtful accounts	**$ 367**	$ 462
Accounts receivable greater than 90 days not provided for	**$ 380**	$ 267
Allowance for doubtful accounts to total receivables	**1.3%**	1.6%

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Bad debt expense	**$ 50**	$ 2

LIQUIDITY RISK

Liquidity risk arises from the possibility of not having sufficient cash available to InnVest to fund its growth and capital maintenance programs and refinance its obligations as they arise. There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to InnVest, or on any terms at all. There is also a risk that bank lenders will not refinance the operating and bridge loan facilities on terms and conditions acceptable to InnVest, or on any terms at all.

Estimated maturities of InnVest's financial liabilities, excluding 'Other liabilities' are:

	Remainder of 2014	2015	2016	2017	2018	2019 and Thereafter	Contractual Cash Flows(1)
Accounts payable and accrued liabilities	$ 61,913	$ –	$ –	$ –	$ –	$ –	$ 61,913
Liabilities related to assets held for sale	13,813	–	–	–	–	–	13,813
Bank indebtedness							
– principal(2)	–	32,300	–	–	–	–	32,300
– interest(3)	404	673	–	–	–	–	1,077
Mortgages and subordinated term loan payable							
– principal(2)	4,061	85,629	59,970	311,302	60,462	195,507	716,931
– interest(3)	10,307	39,105	36,137	21,415	12,250	18,321	137,535
Bridge loan							
– principal(2)	250	2,000	–	–	–	–	2,250
– interest(3)	30	26	–	–	–	–	56
Convertible debentures							
– principal	–	–	36,358	75,000	50,000	86,250	247,608
– interest	3,805	15,220	13,379	12,766	6,828	2,695	54,693
Long-term land leases	460	1,706	1,706	1,706	1,710	73,065	80,353
Total	$ 95,043	$ 176,659	$ 147,550	$ 422,189	$ 131,250	$ 375,838	$ 1,348,529

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.
(2) Mortgage principal includes regular amortization and repayments at maturity.
(3) Interest for floating rate debt is based on interest rates prevailing at September 30, 2014.

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 September 30, 2014 and December 31, 2013 due to their short-term nature.

The fair value of InnVest's long-term debt is greater than the carrying value by approximately $11,583 at September 30, 2014 (December 31, 2013 – $7,634) 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 $5,794 at September 30, 2014 (December 31, 2013 – was less than by $13,884). 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 liabilities measured at fair value on the balance sheet is as follows:

			September 30, 2014			December 31, 2013
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
Financial Liabilities:						
Exchangeable units	**1,927**	**–**	**1,927**	1,695	–	1,695
Convertible debenture holders' conversion option	**–**	**10,575**	**10,575**	–	17,227	17,227
Unvested executive compensation	**154**	**–**	**154**	75	–	75
Total financial liabilities	**$ 2,081**	**$ 10,575**	**$ 12,656**	$ 1,770	$ 17,227	$ 18,997

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 market value of convertible debenture holders' conversion options is estimated using a Black-Scholes valuation model and 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:

	September 30, 2014	December 31, 2013
Expected volatility	**27.0%**	27.0%
Expected distribution yield	**7.5%**	8.6%

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 debentures holders' conversion option, which are financial instruments classified as Level 3 during the nine months ended September 30, 2014 and the year ended December 31, 2013.

	September 30, 2014	December 31, 2013
Opening balance at January 1	**$ 17,227**	$ 662
Fair value loss included in net income (Note 23)	**9,671**	12,572
Change in fair value of Series G conversion option resulting from redemption and amendment (Note 11)	**(16,323)**	–
Issuance	**–**	3,993
Balance at end of the period	**$ 10,575**	$ 17,227

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

Letters of credit

As at September 30, 2014, InnVest has letters of credit totalling $2,349 (December 31, 2013 – $2,179) outstanding for security deposits related to various utility companies and liquor licences and additional security for the pension liabilities.

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:

	Units
Opening balance at January 1, 2013	93,583,904
Units issued under distribution reinvestment plan	115,550
Units issued under trustee and executive plans	131,443
Balance at December 31, 2013	93,830,897
Units issued under distribution reinvestment plan	427,797
Units issued under trustee and executive plans	61,849
Issue of new units	671,779
Balance at September 30, 2014	**94,992,322**

Trustee compensation plan

InnVest has set aside 350,000 units in reserve for the Board of Trustees compensation. The balance in this reserve account at September 30, 2014 is 152,745 units (December 31, 2013 – 169,606 units). Under the Trustee compensation plan, 16,861 units were issued from the reserve for the nine months ended September 30, 2014 (December 31, 2013 – 36,943 units).

In September 2014, InnVest's Board of Trustees approved an increase of this reserve to 1% of InnVest's outstanding units from time to time in connection with proposed changes to the Board of Trustees compensation structure. The listing of up to an additional 797,412 units for this purpose, (which would increase the reserve account balance to 950,157 units) was conditionally approved by the Toronto Stock Exchange in October 2014, subject to unitholder approval and other customary conditions.

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. All granted units vest equally on the third and fourth anniversaries of 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 September 30, 2014 is 585,884 units (December 31, 2013 – 621,345 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 units under this plan and any fair value adjustments on the liability are recorded as compensation expense and included in 'Corporate and administrative' expense in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

At September 30, 2014 there were 57,685 (December 31, 2013 – 27,210) unvested executive units granted under the plan. The unvested units are presented as liabilities over the vesting periods.

The following table summarizes the status of the executive compensation plan at September 30, 2014, 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
2010 – granted	3,500	1,148	4,648	$ 5.30
2011 – granted	4,000	1,112	5,112	$ 6.80
2012 – granted	7,000	1,124	8,124	$ 4.50
2013 – granted	11,000	543	11,543	$ 4.78
Units vested 2013	(1,750)	(467)	(2,217)	
2014 – granted	33,172	2,290	35,462	$ 5.29
Units vested 2014	(3,750)	(1,237)	(4,987)	
	53,172	4,513	57,685	$ 5.20

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. Effective September 2014, InnVest amended its DRIP to provide it 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.

Issuance of units

On April 24, 2014, InnVest issued 573,361 units, at a price of $5.23 or $3,000 related to the Up-Front Fee and the Commitment Fee paid to KingSett and subsequently issued 98,418 at a weighted average price of $5.43 related to the Term Interest Payments (see Note 10).

18. PER UNIT INFORMATION

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

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	Net Income	Weighted Average Units	Net Income	Weighted Average Units
Basic	$ 16,508	94,863,069	$ 13,946	93,770,602
Diluted	$ 21,051	130,628,458	$ 16,738	120,363,956

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
	Net Loss	Weighted Average Units	Net Loss	Weighted Average Units
Basic and diluted	$ (13,545)	94,388,753	$ (7,215)	93,720,441

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 September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Convertible debentures	–	19,427,909	41,697,647	43,171,670

For the nine months ended September 30, 2014, InnVest declared $28,312 distributions to unitholders (2013 – $28,092) at $0.0333 distributions per unit monthly (2013 – $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 $3,154 distributions to unitholders at $0.40 per unit annually or $0.0333 per month to November 4, 2014.

19. CHANGES IN NON-CASH WORKING CAPITAL

Cash generated from (utilized in)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Accounts receivable	$ 2,992	$ (7,571)
Prepaid expenses and other assets	3,071	(4,985)
Accounts payable and other liabilities	(6,222)	14,792
Changes in non-cash working capital	$ (159)	$ 2,236

20. RELATED PARTY DISCLOSURES

Westmont Hospitality Canada Limited

InnVest has a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements") with Westmont Hospitality Canada Limited ("Westmont").

Two trustees of InnVest have a direct or indirect controlling interest in Westmont and as such have a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At September 30, 2014, Westmont managed all but 10 of InnVest's hotels. The Agreements are on terms consistent with those that prevail in arm's length transactions.

Westmont manages the hotel businesses and provides customary hotel management services, including preparation of annual operating and capital budgets and marketing plans, accounting and financial reporting, supervision of sales and marketing, human resource management, purchasing, management and supervision of construction and technical services, information technology, franchise relations and evaluations, supervision of property repairs and maintenance, supervision of compliance with material contracts relating to the hotel properties, leasing, yield management and quality control.

On April 24, 2014, InnVest finalized changes to certain agreements with Westmont including the internalization of the asset management function effective November 30, 2014 and the amendment and extension of the hotel management agreement to reflect a reduction of base management fees from 3.375% to 2.95% along with a new incentive fee structure that will allow Westmont to earn up to 3.80% of gross hotel revenue each year. The new amended hotel management agreement was effective April 1, 2014 and will expire in April 2024.

For certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of gross operating profit, after the reserve for replacement of furniture, fixtures and equipment and capital improvements, subject to an annual minimum fee. This asset management agreement will terminate November 30, 2014.

In accordance with the management agreement, in addition to the base management fee and incentive fee, Westmont is entitled to the following fees in respect of hotels that it manages (i) purchasing fees based on 5% of the cost of certain goods and supplies; (ii) construction fees based on 5% of the cost of construction and capital expenditures; and (iii) per guest room fees for accounting services in respect of the hotel businesses. For assets sold which are managed by Westmont, InnVest pays a termination fee equal to the management fees paid based on the trailing 12 months revenues. The amended and restated management agreement did not result in any changes to the basis for such additional fees.

During the nine months ended September 30, 2014 and 2013, the fees charged to InnVest pursuant to the Agreements were as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	**Nine Months Ended September 30, 2014**	Nine Months Ended September 30, 2013
Management fees	**$ 3,173**	$ 3,387	**$ 8,280**	$ 8,905
Asset management fees (included in 'Management fees')	**345**	464	**1,143**	1,394
Accounting services (included in 'Operating expenses')	**526**	579	**1,638**	1,751
Administrative services (included in 'Corporate and administrative')	**96**	92	**266**	255
Project management and general contractor services (capitalized to 'Hotel properties')	**940**	969	**2,779**	1,859
Termination fees (included in 'Operating expenses')	**250**	144	**795**	288
	$ 5,330	$ 5,635	**$ 14,901**	$ 14,452

In addition, InnVest reimburses Westmont for costs of certain employees which are paid by Westmont on account of InnVest. For the nine months ended September 30, 2014 InnVest reimbursed $719 of related costs (2013 – $2,084). Included in 'Accounts payable and accrued liabilities' are amounts owed to Westmont at September 30, 2014 totalling $1,837 (December 31, 2013 – $3,175).

KingSett Capital

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.

KingSett has provided InnVest with a $50,000 Term Loan and a facility to draw an additional $50,000 Liquidity Loan. Refer to Note 10 for a description of key terms of these loans and corresponding transactions during the year. Included in 'Accounts payable and accrued liabilities' are amounts owed to KingSett at September 30, 2014 totalling $123 (December 31, 2013 – $ nil).

An affiliate of KingSett is the land owner for one leasehold hotel owned by InnVest. The lease expires in 2088. For the nine months ended September 30, 2014, InnVest paid $406 (2013 – $403) in lease payments related to this asset. Included in 'Accounts payable and accrued liabilities' are amounts owed to an affiliate of KingSett at September 30, 2014 totalling $45 (December 31, 2013 – $45).

21. OTHER INCOME, NET

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	**Nine Months Ended September 30, 2014**	Nine Months Ended September 30, 2013
Gain on sale of assets, net	**$ 555**	$ 602	**$ 4,564**	$ 8,702
Litigation settlement	**–**	–	**500**	–
Lease agreement income	**–**	798	**–**	798
Gain on redemption of convertible debentures, net (Note 11)	**1,227**	–	**1,045**	–
Gain on amendment of convertible debenture (Note 11)	**10,583**	–	**10,583**	–
Interest income	**33**	28	**162**	108
	$ 12,398	$ 1,428	**$ 16,854**	$ 9,608

During the nine months ended September 30, 2014, InnVest recorded a net gain of $4,564 on the sale of twelve hotels included in 'Assets held for sale' (2013 – $8,702 on the sale of two hotel and one office and retail complex (Note 3)).

22. WRITEDOWN OF HOTEL PROPERTIES, NET

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	**Nine Months Ended September 30, 2014**	Nine Months Ended September 30, 2013
Writedown of hotel properties held for sale (Note 3)	**$ –**	$ –	**$ 2,000**	$ 2,550
Reversal of previous impairment (Note 3)	**(295)**	(999)	**(2,786)**	(3,464)
Writedown of hotel properties (Note 6)	**5,250**	–	**5,250**	3,300
	$ 4,955	$ (999)	**$ 4,464**	$ 2,386

During the nine months ended September 30, 2014, InnVest recorded a reversal of previous impairment of $2,786 following the sale of four hotels included in 'Assets held for sale' (2013 – $3,464 related to three hotels), the writedown of one hotel property of $2,000 included in 'Assets held for sale' (2013 – $2,550 relating to four hotels) and $5,250 relating to four hotels (2013 – $3,300 relating to two hotels).

23. UNREALIZED LOSS (GAIN) ON LIABILITIES PRESENTED AT FAIR VALUE

Fair value losses (gains) recorded are as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	**Nine Months Ended September 30, 2014**	Nine Months Ended September 30, 2013
Exchangeable units	**$ (3)**	$ (29)	**$ 232**	$ 7
Convertible debentures holders' conversion option	**1,785**	(963)	**9,671**	3,820
	$ 1,782	$ (992)	**$ 9,903**	$ 3,827

24. SEGMENT INFORMATION

The management of InnVest's operations is organized within four Canadian geographical regions: Western, Ontario, Quebec and Atlantic. Unallocated functions include the revenues and costs associated with InnVest's other real estate properties, and costs of central corporate services provided. All key financing, investing and capital allocation decisions are centrally managed.

Revenues

Three Months Ended September 30, 2014	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 40,114**	**$ 55,396**	**$ 28,800**	**$ 23,947**	**$ 148,257**
Other real estate properties					**177**
Revenues					**$ 148,434**

Three Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 41,493	$ 60,355	$ 30,767	$ 28,297	$ 160,912
Other real estate properties					221
Revenues					$ 161,133

Nine Months Ended September 30, 2014	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 118,455**	**$ 150,281**	**$ 75,411**	**$ 64,403**	**$ 408,550**
Other real estate properties					**546**
Revenues					**$ 409,096**

Nine Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 120,358	$ 162,824	$ 93,765	$ 67,663	$ 444,610
Other real estate properties					1,621
Revenues					$ 446,231

Net income (loss)

Three Months Ended September 30, 2014	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 13,198**	**$ 17,231**	**$ 8,889**	**$ 8,964**	**$ 48,282**
Other real estate properties					**(43)**
Gross operating profit					**48,239**
Other expenses, net					**(31,731)**
Income tax recovery					**–**
Net income					**$ 16,508**

Three Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 12,145	$ 16,566	$ 9,661	$ 9,008	$ 47,380
Other real estate properties					(1)
Gross operating profit					47,379
Other expenses, net					(33,455)
Income tax recovery					22
Net income					$ 13,946

Nine Months Ended September 30, 2014	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	**$ 32,988**	**$ 37,357**	**$ 16,214**	**$ 14,294**	**$ 100,853**
Other real estate properties					**(275)**
Gross operating profit					**100,578**
Other expenses, net					**(114,123)**
Income tax recovery					**–**
Net loss					**$ (13,545)**

Nine Months Ended September 30, 2013	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 33,409	$ 36,295	$ 19,426	$ 14,389	$ 103,519
Other real estate properties					394
Gross operating profit					103,913
Other expenses, net					(111,472)
Income tax recovery					344
Net loss					$ (7,215)

Hotel properties	Western	Ontario	Quebec	Atlantic	Total
September 30, 2014	**$ 369,556**	**$ 399,614**	**$ 175,315**	**$ 132,630**	**$ 1,077,115**
December 31, 2013	$ 377,719	$ 438,537	$ 169,331	$ 149,916	$ 1,135,503

Capital Expenditures	Western	Ontario	Quebec	Atlantic	Total
Nine Months Ended September 30, 2014	**$ 21,945**	**$ 16,538**	**$ 11,875**	**$ 7,442**	**$ 57,800**
Nine Months Ended September 30, 2013	$ 21,983	$ 10,041	$ 2,926	$ 6,277	$ 41,227

25. SUBSEQUENT EVENTS

Assets held for sale

Subsequent to September 30, 2014, one hotel with an aggregate net book value of $11,091 triggered the conditions to be presented as held for sale.

Acquisitions

On October 28, 2014, InnVest and KingSett Real Estate Growth LP No. 5, an affiliate of KingSett, entered into a definitive agreement with Ivanhoé Cambridge, to acquire an aggregate 80% interest in the Fairmont Royal York Hotel in Toronto, Ontario (the "Royal York Hotel") in a joint venture where Ivanhoé Cambridge will retain a 20% interest in the hotel.

The joint venture will acquire the 1,363-room Royal York Hotel for an aggregate price of $186,500, or $137 per room, with InnVest's 20% share in the joint venture being acquired for approximately $37,300. The joint venture expects to finance the acquisition with conventional mortgage financing. InnVest intends to fund its proportionate share of the acquisition equity with available cash and capacity under its existing credit facilities. The transaction is expected to close on January 30, 2015 and is subject to customary closing conditions.

KingSett Real Estate Growth LP No. 5, with its 60% interest in the joint venture, will become the managing partner of the joint venture. InnVest will become the hotel asset manager and oversee the property's hospitality operations, working with Fairmont Hotels and Resorts, the operator of the Royal York Hotel. The parties to the joint venture plan to invest over $50,000 of additional funds for renovations over the 24 months following the acquisition (InnVest's share being $10,000).

As at November 4, 2014, InnVest has non-refundable acquisition-related commitments totalling $14,000 (made up of cash and letters of credits), of which $2,000 was recognized as at September 30, 2014.

26. APPROVAL OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements were authorized for issue by the Board of Trustees of InnVest on November 4, 2014.

Corporate and unitholder information

Corporate Office
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Mississauga, Ontario L4W 4T9
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Stock Exchange Listing
The Toronto Stock Exchange
Trading Symbol: INN.UN
Convertible Debentures:
INN.DB.D, 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, 11th floor
Toronto, Ontario
Phone: 1-800-564-6253
Fax: 1-866-249-777

Auditors
Deloitte LLP
Toronto, Ontario

Distribution Reinvestment Plan
Unit holders 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.

	Ontario		Quebec		Atlantic		Western		Total		
As of September 30, 2014	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms
Comfort Inn	24	1,861	17	1,275	14	1,028	8	651	63	4,815	34.7%
Holiday Inn	8	1,427	1	176	1	196	1	151	11	1,950	14.1%
Quality Hotel, Quality Suites	3	569	4	551	1	159	1	126	9	1,405	10.1%
Delta Hotel	1	220	2	337	2	521	1	393	6	1,471	10.6%
Travelodge	3	368	–	–	–	–	2	422	5	790	5.7%
Hilton Hotel	–	–	1	571	1	197	–	–	2	768	5.5%
Fairmont Hotels & Resorts	–	–	–	–	–	–	2	604	2	604	4.4%
Holiday Inn Express	3	452	–	–	–	–	–	–	3	452	3.3%
Radisson Hotel/Suites	2	388	–	–	–	–	–	–	2	388	2.8%
Staybridge Suites	3	342	–	–	–	–	–	–	3	342	2.5%
Sheraton Suites	–	–	–	–	–	–	1	323	1	323	2.3%
Best Western	1	130	–	–	–	–	–	–	1	130	0.9%
Hilton Garden Inn	1	120	–	–	–	–	–	–	1	120	0.9%
Hilton Homewood Suites	1	83	–	–	–	–	–	–	1	83	0.6%
Independent	2	226	–	–	–	–	–	–	2	226	1.6%
Total	52	6,186	25	2,910	19	2,101	16	2,670	112	13,867	100.0%

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