

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

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

SHORT FORM PROSPECTUS

New Issue

December 18, 2009



INNVEST REAL ESTATE INVESTMENT TRUST

\$50,000,000

6.75% Convertible Unsecured Subordinated Debentures

This short form prospectus qualifies the distribution of \$50,000,000 aggregate principal amount of 6.75% convertible unsecured subordinated debentures, Series D (the "**Debentures**") of InnVest Real Estate Investment Trust (the "**REIT**") at a price of \$1,000 per Debenture (the "**Offering**"). The Debentures bear interest at an annual rate of 6.75% payable semi-annually in arrears on March 31 and September 30 in each year, commencing March 31, 2010, and will mature on March 31, 2016 (the "**Maturity Date**"). See "Description of the Debentures".

Each Debenture is convertible into freely-tradable units ("**Units**") of the REIT at the option of the holder at any time prior to 4:00 p.m. (Toronto time) on the earlier of March 31, 2016 and the last business day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$5.70 per Unit (the "**Conversion Price**"), being a conversion rate of approximately 175.4386 Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture (as defined herein). Except in limited circumstances, holders converting their Debentures will receive accrued and unpaid interest on such Debentures, if any, for the period from the last interest payment date (or the date of issue if no interest has yet been paid by the REIT) to and including the last record date declared by the REIT for determining holders of Units ("**Unitholders**") entitled to receive distributions on the Units. Further particulars concerning the conversion privilege, including provisions for the adjustment of the Conversion Price in certain events are set out under "Description of the Debentures — Conversion Rights". **A holder of Debentures will not be entitled to deferred tax treatment on the conversion, redemption or repayment at maturity of such Debentures. See "Certain Canadian Federal Income Tax Considerations".**

Price: \$1,000 per Debenture

	<u>Price to the Public⁽¹⁾</u>	<u>Underwriters' Fee</u>	<u>Net Proceeds to the REIT⁽²⁾</u>
Per Debenture	\$1,000	\$37.50	\$962.50
Total Offering	\$50,000,000	\$1,875,000	\$48,125,000

Notes:

- (1) The offering price for the Debentures was established through negotiation between the REIT and the Underwriters.
- (2) Before deducting expenses of the Offering estimated at \$500,000 which, together with the Underwriters' fee, will be paid from the proceeds of the Offering. See "Plan of Distribution".

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The Debentures are not redeemable on or prior to December 31, 2013. From January 1, 2014 to December 31, 2014, the Debentures may be redeemed by the REIT, in whole or in part, on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the Toronto Stock Exchange ("TSX") for the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after January 1, 2015, the Debentures may be redeemed by the REIT, in whole or in part, at any time at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. See "Description of Debentures — Redemption".

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

The Debentures are being offered pursuant to an underwriting agreement (the "Underwriting Agreement") dated December 14, 2009 between the REIT and RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., TD Securities Inc., Canaccord Financial Ltd. and Blackmont Capital Inc. (collectively, the "Underwriters" and each an "Underwriter").

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

Subscriptions for the Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is expected to occur on or about December 30, 2009 or such later date as the REIT and the Underwriters may agree, but in any event not later than January 7, 2010. Registration and transfers of Debentures and Units issuable upon conversion, redemption or maturity of the Debentures will be effected only through the book-based system administered by The Canadian Depository for Securities Limited ("CDS"). Beneficial owners of Debentures or Units will not, except in limited circumstances, be entitled to receive a physical certificate evidencing their ownership of Debentures or Units. See "Description of the Debentures — Book-Based System" and "Description of the Units — Book-Based System".

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. The TSX has conditionally approved the listing of the Debentures and the Units issuable upon conversion of the Debentures. The listing is subject to the REIT fulfilling all of the listing requirements of the TSX on or before March 11, 2010. The Units are listed on the TSX under the symbol "INN.UN". On December 9, 2009, the day before the announcement of the Offering, the closing price of the Units on the TSX was \$4.71 per Unit.

An affiliate of RBC Dominion Securities Inc. is a lender to the REIT under the Bridge Loan (as defined herein) and the Credit Line (as defined herein). Certain affiliates of the Underwriters have provided and may provide in the future investment banking, commercial banking and other financial services to the REIT for which they have received or will receive compensation. The net proceeds from the Offering will be used to repay indebtedness and for general trust purposes, which may include the repayment by the REIT of amounts outstanding under the Bridge Loan and/or the Credit Line. Accordingly, the REIT may be considered to be a "connected issuer" of each of the Underwriters within the meaning of applicable Canadian securities legislation. See "Relationship Between the REIT and Certain Underwriters".

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

The REIT is an unincorporated open-ended real estate investment trust governed by the laws of the Province of Ontario. **The REIT is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that Act or any other legislation.**

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

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

The return on a Unit is subject to Canadian income tax. The Canadian income tax consequences to Unitholders who are Canadian residents will depend, in part, on the composition for tax purposes of distributions paid by the REIT, portions of which may be fully or partially taxable or may constitute tax deferred distributions which are not subject to tax at the time of receipt but reduce a Unitholder’s adjusted cost base in the Units for Canadian income tax purposes. That composition may change over time, thus affecting a Unitholder’s after-tax return. Subject to the application of the SIFT Regime (as defined herein) discussed under the heading “Certain Canadian Federal Income Tax Considerations”, distributions of the net income of the REIT are generally taxed as ordinary income in the hands of a Unitholder while distributions in excess of the net income of the REIT are generally tax-deferred (and reduce the Unitholder’s cost base in the Unit for tax purposes). Distributions of income and returns of capital to a Unitholder that is not resident in Canada for purposes of the *Income Tax Act* (Canada), as amended (the “Tax Act”), or is a partnership that is not a “Canadian partnership” for purposes of the Tax Act may be subject to Canadian withholding tax. Prospective Unitholders should consult their own tax advisors with respect to the Canadian income tax considerations applicable in their circumstances.

The registered and head office of the REIT is located at 7th Floor, 5090 Explorer Drive, Mississauga, Ontario, L4W 4T9.

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ELIGIBILITY FOR INVESTMENT

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

The holder of a tax-free savings account that governs a trust which holds Debentures or Units (including Units acquired under the terms of the Debentures) will be subject to a penalty tax if the holder does not deal at arm’s length with the REIT for purposes of the Tax Act or if the holder has a significant interest (within the meaning of the Tax Act) in the REIT or in a corporation, partnership or trust with which the REIT does not deal at arm’s length for purposes of the Tax Act.

MEANING OF CERTAIN REFERENCES

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

NON-GAAP FINANCIAL MEASURES

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

“Distributable Income” means net income of the REIT as set out in its consolidated financial statements determined in accordance with GAAP, subject to certain adjustments set out in the Declaration of Trust

(as defined herein), including the adding back of depreciation and amortization, amortization of fair value debt adjustments and future income tax expenses, excluding any gains or losses on the disposition of real property, and future income tax benefits and deducting the amount calculated for the reserve for replacement of furniture, fixtures and equipment and capital improvements, the interest on convertible debentures that is not included in the computation of net income and any other adjustments determined by the trustees in their discretion.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, which may cause the REIT's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others: changes in business strategies; general global economic and business conditions; general global credit market conditions; the effects of competition and pricing pressures; industry overcapacity; shifts in market demands; changes in laws and regulations, including environmental and regulatory laws; potential increases in maintenance and operating costs; uncertainties of litigation; labour disputes; timing of completion of capital or maintenance projects; currency and interest rate fluctuations; various events which could disrupt operations; technological changes; and those factors discussed in the section entitled "Risk Factors" in this short form prospectus. The REIT does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the REIT, except as required by Canadian securities laws.

DOCUMENTS INCORPORATED BY REFERENCE

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

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

- (i) the annual information form of the REIT dated March 4, 2009 for the year ended December 31, 2008 (the "**AIF**");
- (ii) the audited consolidated financial statements of the REIT for the years ended December 31, 2008 and 2007, together with the notes thereto and the auditors' report thereon (the "**Annual Financial Statements**");

- (iii) management's discussion and analysis of the consolidated financial condition and results of operations of the REIT for the year ended December 31, 2008 (the "**Annual MD&A**");
- (iv) the unaudited interim consolidated financial statements of the REIT for the three and nine months ended September 30, 2009 and 2008, together with the notes thereto (the "**Third Quarter Financial Statements**");
- (v) management's discussion and analysis of the consolidated financial condition and results of operations of the REIT for the three and nine months ended September 30, 2009 (the "**Third Quarter MD&A**");
- (vi) the management information circular of the REIT dated March 4, 2009 prepared in connection with the REIT's annual and special meeting of Unitholders held on April 14, 2009;
- (vii) the material change report of the REIT dated March 16, 2009 in respect of the unanimous adoption by the trustees of the REIT of an amended and restated rights plan (the "**Plan**") pending expiry of the initial rights plan dated October 8, 2008 and the approval of the TSX and a majority of the Independent Unitholders (as defined in the Plan);
- (viii) the material change report of the REIT dated October 1, 2009 in respect of the Unit Offering (as defined herein) and a reduction of the REIT's monthly distribution; and
- (ix) the material change report of the REIT dated December 15, 2009 in respect of the Offering.

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

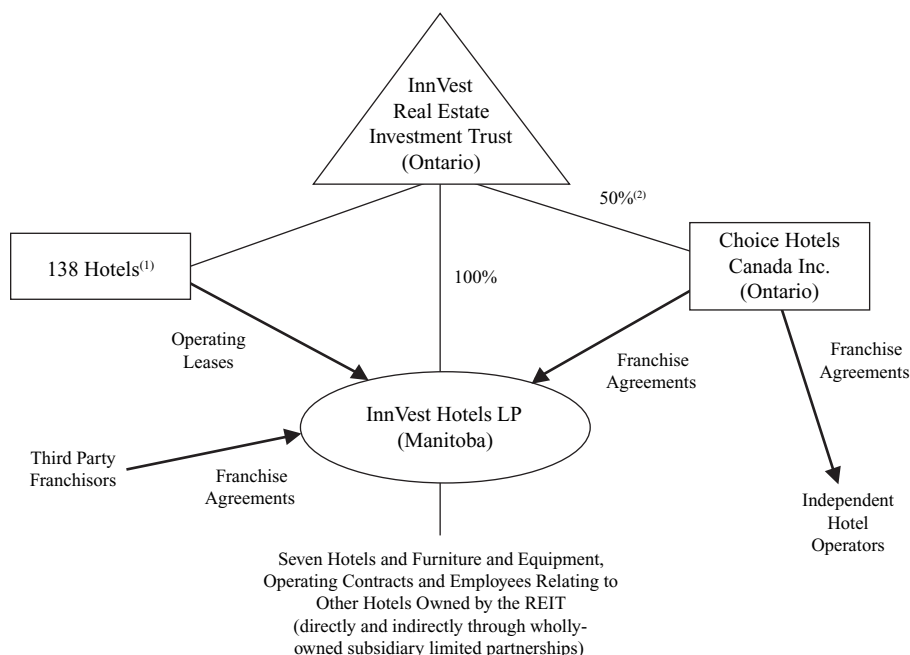
INNVEST REAL ESTATE INVESTMENT TRUST

The REIT is an unincorporated open-ended real estate investment trust governed by an amended and restated declaration of trust dated as of January 1, 2007 (the “**Declaration of Trust**”) and the laws of the Province of Ontario. The REIT is focused on the ownership and acquisition of hotel properties. The REIT also indirectly owns 50% of Choice Hotels Canada Inc., the largest franchisor of hotels in Canada as measured by hotels under franchise.

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

The REIT currently holds, directly and indirectly, 145 Canadian hotel properties, Canada’s largest hotel portfolio as measured both by number of hotels and by number of guest rooms. The REIT’s hotels are operated under international brands, including Comfort Inn®, Delta Hotels®, Holiday Inn® and Travelodge®, which make up approximately 75% of the hotel portfolio’s total guest rooms.

The following chart illustrates the primary structural and contractual relationships between the REIT and its principal subsidiary entities and certain third parties as of December 17, 2009:



(1) Eight hotels are owned by subsidiary corporations and one hotel is owned by a subsidiary trust. The balance of the hotels are owned directly by the REIT or indirectly through subsidiary limited partnerships.

(2) Held through a wholly-owned subsidiary of the REIT.

RECENT DEVELOPMENTS

Normal Course Issuer Bids

On November 12, 2009, the REIT announced that the TSX accepted notice of the REIT's intention to make normal course issuer bids through the facilities of the TSX for up to 8,032,364 Units, \$4,576,400 aggregate principal amount of its 6.25% Series A convertible debentures, \$7,498,000 aggregate principal amount of its 6.00% Series B convertible debentures, and \$7,000,000 aggregate principal amount of its 5.85% Series C convertible debentures, representing 10% of the public float of each class of security. The REIT's previous normal course issuer bid (for Units only) expired on November 10, 2009. The REIT may make purchases under its normal course issuer bids from time to time over the 12-month period that commenced on November 16, 2009 and will terminate on November 15, 2010. It is currently expected that Units or convertible debentures purchased under its normal course issuer bids will be cancelled, other than Units issued to the trustees of the REIT in satisfaction of a portion of their annual retainer fee.

Offering of Units

On September 21, 2009, the REIT announced an agreement with the Underwriters to issue to the public, on a bought deal basis, 12,658,500 Units at a price of \$3.95 per Unit for gross proceeds of approximately \$50 million (the "Unit Offering"). The Unit Offering closed on October 14, 2009. Maple Leaf Investment Holdings L.P., an affiliate of the manager of the REIT's hotel portfolio, acquired 5.0% of the offered Units.

Reduction of Distribution

On September 21, 2009, the REIT announced that it reduced its monthly distribution per Unit from \$0.0625 to \$0.0417, which represents an annual distribution of \$0.50 per Unit. The trustees of the REIT unanimously approved the reduction of the REIT's distribution after careful consideration of the ongoing economic downturn and its impact on operating performance, as well as the trustees' desire to strengthen the REIT's balance sheet and liquidity.

Mortgage Refinancing

On September 16, 2009, the REIT announced that it refinanced a \$177 million mortgage that was scheduled to mature in July 2010. The new mortgage has a three-year term, bears interest at an annual rate of 7.5% and is secured by 40 limited service hotels. Following the refinancing, the REIT's overall interest rate on its mortgage debt will be approximately 5.9%. The refinancing closed on November 27, 2009.

CONSOLIDATED CAPITALIZATION

The following table sets forth the cash and cash equivalents and the consolidated capitalization of the REIT: (i) as at September 30, 2009, the date of the REIT's most recently filed financial statements; and (ii) as at September 30, 2009, after giving effect to the Unit Offering and the Offering, as though each had been completed on September 30, 2009, and assuming a portion of the net proceeds from the Unit Offering and the Offering are used to repay all amounts outstanding under the Bridge Loan and certain amounts under the REIT's existing mortgages. There can be no assurance that the REIT will use the net proceeds from the Unit Offering and the Offering to repay all or part of the amounts outstanding under the Bridge Loan or the existing mortgages. The table should be read in conjunction with the Third Quarter Financial Statements.

	As at September 30, 2009	
	Actual	As Adjusted
	(in thousands of \$)	
Cash		
Cash and cash equivalents	\$ 8,888	\$ 33,888
Restricted cash	3,521	3,521
Total Cash	12,409	37,409
Indebtedness		
Bridge Loan	7,000	Nil
Mortgages ⁽¹⁾	940,443	877,217
Convertible debentures ⁽²⁾	182,413	226,038
Total Indebtedness ⁽³⁾	1,129,856	1,103,255
Unitholders' equity	490,425	542,026
Total Capitalization	1,620,281	1,645,281

(1) Net of debt issuance costs of \$6,069.

(2) Net of allocation to equity of \$8,642, accretion of \$4,675 and issuance costs of \$4,362.

(3) The REIT is not permitted to exceed certain financial leverage amounts under the terms of the Declaration of Trust. The REIT is permitted to have indebtedness, excluding convertible debentures, up to a level of 50% of its gross asset value. Further, the REIT is permitted to have indebtedness and convertible debentures up to a level of 60% of its gross asset value. The REIT calculates indebtedness in accordance with GAAP, excluding non-interest bearing indebtedness, trade accounts payable, and any future income tax liability. The REIT calculates gross asset value at any time as the total book value of assets on the REIT's then most recent publicly-issued consolidated balance sheet, plus the accumulated depreciation and amortization thereon, less certain future tax liabilities. At September 30, 2009, the REIT's financial leverage excluding and including convertible debentures was 46.7% and 56.0%, respectively. The REIT's financial leverage excluding and including convertible debentures (assuming a portion of the net proceeds from the Unit Offering and the Offering are used to repay all amounts outstanding under the Bridge Loan and certain amounts under the REIT's existing mortgages) will be approximately 42.8% and 54.4%, respectively.

USE OF PROCEEDS

The net proceeds to the REIT from the Offering, after deducting the Underwriters' fee and certain other expenses of the Offering, are estimated to be \$47,625,000. The Underwriters' fee and the other expenses of the Offering will be paid out of the general funds of the REIT.

The net proceeds from the Offering will be used by the REIT to repay indebtedness and for general trust purposes, which may include the repayment by the REIT of amounts outstanding under the REIT's \$7 million bridge loan due February 2010 (the "**Bridge Loan**"), the REIT's \$40 million operating line of credit due August 2011 (the "**Credit Line**") and/or existing mortgages.

The Bridge Loan was funded on March 19, 2008. During the nine months ended September 30, 2009, the Bridge Loan was extended to February 28, 2010. The Bridge Loan was used to finance part of the development of a 105-room Staybridge Suites hotel located in Oakville, Ontario. As at December 17, 2009, the principal amount outstanding under the Bridge Loan was \$7 million.

The REIT's borrowings under the Credit Line are used for working capital and general trust purposes. Given the seasonality of earnings through the year in contrast to its fixed costs, the REIT generally funds a portion of its distributions in its first and second financial quarters with funds borrowed under the Credit Line. As at December 17, 2009, the principal amount outstanding under the Credit Line was \$nil. The REIT may draw down any amounts repaid under the Credit Line subject to compliance with the terms of the Credit Line. See "Relationship Between the REIT and Certain Underwriters".

EARNINGS COVERAGE

The following *pro forma* earnings coverage ratios are calculated on a consolidated basis for the year ended December 31, 2008 and the 12-month period ended September 30, 2009, in each case after giving effect to (i) the issuance of the Debentures, (ii) the issuance or retirement of any long-term financial liabilities of the REIT subsequent to the end of each period and (iii) the retirement of all long-term financial liabilities to be retired using the proceeds to be realized from the issuance of the Debentures, as though such issuances or retirements had occurred at the beginning of the applicable periods.

	12 Months Ended December 31, 2008	12 Months Ended September 30, 2009
	<i>(pro forma)</i>	
Interest requirements (in thousands of \$) ⁽¹⁾	71,400	69,742
Earnings before interest expense and taxes (in thousands of \$) ⁽²⁾	54,900	17,628
Earnings coverage ⁽¹⁾⁽²⁾⁽³⁾	0.77	0.25
Earnings before interest expense, taxes, discontinued operations and writedowns (in thousands of \$) ⁽²⁾⁽⁴⁾	91,917	59,497
Adjusted earnings coverage ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁵⁾	1.29	0.85

- (1) For the purpose of this calculation, *pro forma* interest requirements assume that all of the REIT's outstanding convertible debentures (including the Debentures) will be characterized as 100% debt and interest payments will be classified as interest expense in the financial statements.
- (2) The REIT's earnings for the year ended December 31, 2008 and the 12-month period ending September 30, 2009 were reduced by \$89,607 and \$91,070, respectively, on account of depreciation and amortization, but do not include reserves of \$28,352 and \$26,133, respectively, for replacement of furniture, fixtures and equipment and capital improvements.
- (3) Earnings coverage is equal to net income before interest expense and taxes divided by interest expense on all debt.
- (4) Discontinued operations and writedowns relate to hotel properties that have been reclassified in the REIT's financial statements as "assets held for sale".
- (5) Adjusted earnings coverage is equal to net income before interest expense, taxes, discontinued operations and writedowns divided by interest expense on all debt.

The REIT's earnings coverage ratios for the year ended December 31, 2008 and the 12-month period ending September 30, 2009 are 0.77 and 0.25, respectively. Excluding losses from discontinued operations and writedowns on assets held for sale, the REIT's adjusted earnings coverage ratios are 1.29 and 0.85, respectively. To achieve earnings coverage ratios of one-to-one, the REIT's earnings before interest expense and taxes for the year ended December 31, 2008 and the 12-month period ending September 30, 2009 would have to increase, respectively, by \$16.50 million and \$52.11 million (\$nil and \$10.25 million excluding losses from discontinued operations and writedowns on assets held for sale).

DESCRIPTION OF THE DEBENTURES

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the trust indenture (the “**Indenture**”) dated July 26, 2002 between the REIT and Computershare Trust Company of Canada, as trustee (the “**Debenture Trustee**”).

General

The Debentures will be issued as a new series under the Indenture and a supplement thereto to be dated as of the closing of the Offering.

The Debentures to be issued will be in the aggregate principal amount of \$50,000,000. The REIT may, from time to time, without the consent of the holders of the Debentures, issue additional debentures of the same series or of a different series under the Indenture, in addition to the Debentures offered hereby.

The Debentures will be dated as of the closing of the Offering and will mature on March 31, 2016. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof and will bear interest from and including the date of issue at 6.75% per annum, which will be payable semi-annually in arrears on March 31 and September 30 in each year, commencing on March 31, 2010. The first interest payment will include interest accrued from the date of the closing to, but excluding, March 31, 2010.

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

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

Subordination

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

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

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

- (i) all indebtedness, liabilities and obligations of the REIT (other than the REIT’s 6.25% Series A convertible debentures, 6.00% Series B convertible debentures and 5.85% Series C convertible debentures (collectively, the “**Existing Debentures**”) and the Debentures), whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the

acquisition by the REIT of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers' acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) or in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers' acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments) by others including, without limitation, any subsidiary of the REIT for payment of which the REIT is responsible or liable, whether absolutely or contingently; and

- (ii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

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

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

Conversion Rights

Each Debenture is convertible into freely-tradable Units of the REIT, at the option of the holder, at any time prior to 4:00 p.m. (Toronto time) on the earlier of March 31, 2016 and the last business day immediately preceding the date specified by the REIT for redemption of the Debentures, at a conversion price of \$5.70 per Unit (the "**Conversion Price**"), being a conversion rate of approximately 175.4386 Units per \$1,000 principal amount of Debentures, subject to adjustment upon the occurrence of certain events in accordance with the Indenture. If all conversion rights attaching to the Debentures are exercised, the REIT will be required to issue 8,771,930 additional Units, subject to anti-dilution adjustments. No adjustment will be made for distributions on Units issuable upon conversion. Holders converting their Debentures will be entitled to receive, in addition to the applicable number of Units to be received on conversion, accrued and unpaid interest, if any, for the period from the last interest payment date (or the date of issue if no interest has yet been paid by the REIT) to and including the last record date declared by the REIT for determining the Unitholders entitled to receive distributions on the Units prior to the date of conversion; provided that, in the event the REIT has suspended or has publicly announced the suspension of regular distributions to Unitholders prior to the date on which a holder converts the Debentures held by such holder, and such suspension is in effect on such conversion date, such holder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from the last interest payment date prior to the date of conversion (or the date of issue if no interest has yet been paid by the REIT) to and including the date of conversion.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price upon the occurrence of certain events including: (i) the subdivision or consolidation of the outstanding Units; (ii) the distribution of Units to Unitholders by way of distribution or otherwise other than an issue of securities to Unitholders who have elected to receive distributions in securities of the REIT in lieu of receiving cash distributions paid in the ordinary course; (iii) the issuance of options, rights or warrants to all or substantially all Unitholders entitling them to acquire Units or other securities convertible into Units at less than 95% of the then current market price (as defined in the Indenture to mean the weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event) of the Units; and (iv) the distribution to all or substantially all Unitholders of (A) units of any class other than Units and other than units distributed to Unitholders who have elected to receive dividends or distributions in the form of such units in lieu of dividends or distributions paid in the ordinary course, (B) rights, options or warrants (excluding rights, options or warrants entitling the holders thereof for a period of not more

than 45 days to subscribe for or purchase Units or securities convertible into Units), (C) evidences of its indebtedness, or (D) assets (excluding dividends or distributions paid in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be, of such event. The REIT will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

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

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

Redemption

The Debentures will not be redeemable prior to December 31, 2013, except in the event of the satisfaction of certain conditions after a Change of Control (as defined herein) has occurred. From January 1, 2014 to December 31, 2014, the Debentures will be redeemable at the option of the REIT, in whole or in part from time to time, on not less than 30 days' prior notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given exceeds 125% of the Conversion Price. On or after January 1, 2015, the Debentures will be redeemable at the option of the REIT, in whole or in part and from time to time, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest. Any Debentures redeemed by the REIT will be cancelled and will not be reissued.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 or by lot in such manner as the Debenture Trustee deems equitable.

Put Right upon a Change of Control

Upon the occurrence of a change of control involving the acquisition, by any person or persons acting jointly or in concert, of voting control or direction over an aggregate of 66 $\frac{2}{3}$ % or more of the outstanding Units, or securities convertible into or carrying the right to acquire Units (a "**Change of Control**"), each holder of Debentures may require the REIT to purchase, on the date which is 30 days following the giving of notice of a Change of Control as set out below (the "**Put Date**"), all or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "**Put Price**") plus accrued and unpaid interest up to but excluding the Put Date.

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

Method of Payment

Payment of Principal on Redemption or at Maturity

On redemption or at maturity, the REIT will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. The REIT may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to repay all or any portion of the principal amount of the Debentures that are to be redeemed or that are to mature by issuing and delivering freely-tradable Units to the holders of the Debentures. The number of Units to be issued in respect of each Debenture will be determined by dividing the principal amount of the Debentures that are to be redeemed or that are to mature, as the case may be, by 95% of the volume-weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or maturity, as the case may be. No fractional Units will be issued on redemption, but in lieu thereof, the REIT shall satisfy fractional interests by a cash payment equal to the market price of the fractional interest.

Interest Payment Election

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

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

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

Events of Default and Waiver

The Indenture provides that an event of default ("**Event of Default**") in respect of the Debentures will result upon the occurrence of certain events described in the Indenture, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay the interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures when due, whether at maturity, upon redemption, by declaration or otherwise; (iii) failure for 60 days after written notice to the REIT by the Debenture Trustee to comply with any of its obligations under the Debentures or the Indenture or any indenture supplemental thereto (other than those referred to in (i) and (ii) above); (iv) failure for 10 days to deliver Units (or cash in lieu of fractional Units) in accordance with the terms of the Indenture when such Units (or cash in lieu of fractional Units) are required to be delivered, upon conversion of a Debenture; (v) default under any agreement evidencing indebtedness for money borrowed by the REIT or a subsidiary of the REIT where such indebtedness shall be accelerated so that it shall be or become due or payable prior to the date on which the same would otherwise become due and payable and the aggregate amount thereof

so accelerated exceeds \$35 million and such acceleration is not rescinded or annulled within five business days after written notice to the REIT by the Debenture Trustee; (vi) certain events of bankruptcy or insolvency affecting the REIT under bankruptcy, insolvency or analogous laws; (vii) a decree or court order issuing sequestration or process of execution against all or a substantial portion of the property of the REIT, appointing a receiver of all or a substantial part of the property of the REIT, or ordering the winding-up or liquidation of the affairs of the REIT and any such decree or order continues unstayed and in effect for 60 days; (viii) if a resolution is passed for the winding-up or liquidation of the REIT; or (ix) if, after the date of the Indenture, any proceedings with respect to the REIT are taken with respect to a compromise or arrangement, with respect to creditors of the REIT generally, under the applicable legislation of any jurisdiction.

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

In addition to the powers exercisable by Extraordinary Resolution (as defined herein), the holders of 66⅔% in aggregate principal amount of the debentures of all series issued pursuant to the Indenture (the “**Issued Debentures**”) at the time outstanding may waive any existing default and its consequences; provided that, if the Event of Default has occurred by reason of the non-observance or non-performance by the REIT of any covenant applicable only to one or more series of Issued Debentures, then the holders of at least 66⅔% of the principal amount of the outstanding debentures of that series shall be entitled to exercise this power.

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

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

Modification

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

The Indenture also provides that certain changes, including (i) changes relating to the modification of the terms of the Debentures, or any reduction of the rate of interest or extension of the time of payment of any principal or interest due thereon, (ii) the modification, abrogation, alteration, compromise or arrangement of the rights of the holders of Debentures or the Debenture Trustee against the REIT, or (iii) the waiver of any default under the Indenture, may be made if authorized by Extraordinary Resolution. The term “Extraordinary Resolution” is defined in the Indenture to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66⅔% of the aggregate principal amount of the Issued Debentures represented and voting at a duly constituted meeting of holders of Issued Debentures.

If the business to be transacted at any meeting by Extraordinary Resolution or otherwise especially affects the rights of holders of Issued Debentures of one or more series in a manner or to an extent differing in any material way from that in or to which the rights of holders of Issued Debentures of any other series are affected, then the holders of at least 66⅔% of the principal amount of the outstanding debentures of that specially affected series shall be entitled to vote separately at a meeting at which not less than 25% of the principal amount of the debentures of that series then outstanding are present in person or by proxy.

All actions which may be taken by holders of Issued Debentures by Ordinary Resolution and Extraordinary Resolution and all actions requiring the approval of at least 66⅔% of a series of Issued Debentures may also be taken and exercised by an instrument or instruments in writing signed by the holders of not less than 66⅔% in

aggregate principal amount of the Issued Debentures or series of Issued Debentures then outstanding, as the case may be.

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

Book-Based System

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

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

Limitation on Non-Resident Ownership

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

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

DESCRIPTION OF THE UNITS

The following is a summary of the material attributes and characteristics of the Units. A more detailed summary of the attributes of the Units can be found under the heading “Description of Securities and Declaration of Trust” in the AIF.

General

The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of such Act or any other legislation. The Units are not shares in the REIT and

Unitholders do not have statutory rights of shareholders of a corporation incorporated under either the *Business Corporations Act* (Ontario) or the *Canada Business Corporations Act*, including, for example, the right to bring “oppression” or “derivative” actions. Furthermore, the REIT is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

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

Issuance of Units

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

Purchase of Units by the REIT

The REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian securities legislation and must be conducted in accordance with the applicable requirements thereof. In November 2009, the REIT renewed its normal course issuer bid to repurchase up to 8,032,364 Units, representing approximately 10% of the REIT’s public float. As at December 17, 2009, the REIT has not made any purchases under its current normal course issuer bid. Under the REIT’s previous normal course issuer bid, which terminated on November 10, 2009, the REIT purchased 633,136 Units, of which 615,049 Units were cancelled upon purchase and the remaining 18,087 Units were transferred to the trustees of the REIT in satisfaction of a portion of their annual retainer fee.

Redemption Right

Units are redeemable at any time on demand by the holders thereof. A Unitholder not otherwise holding a fully registered Unit certificate who wishes to exercise the redemption right is required to obtain a redemption notice form from its investment dealer who will be required to deliver the completed redemption notice form to the REIT through CDS. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit equal to the lesser of: (i) 90% of the “market price” (calculated in accordance with the provisions of the Declaration of Trust) of the Units on the principal market on which the Units are quoted for trading during the 10 trading day period commencing immediately subsequent to the date upon which the Units were surrendered for redemption; and (ii) the “closing market price” (calculated in accordance with the provisions of the Declaration of Trust) on the principal market on which the Units are quoted for trading on the redemption date.

The aggregate redemption price payable by the REIT in respect of any Unit surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the

REIT in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000 (provided that such limitation may be waived at the discretion of the trustees of the REIT); (ii) at the time such Units are tendered for redemption, the outstanding Units are listed for trading on a stock exchange or traded or quoted on another market which the trustees of the REIT consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the redemption date or for more than five trading days during the 10 trading day period commencing immediately after the redemption date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then each Unit tendered for redemption shall, subject to obtaining all applicable regulatory approvals, be redeemed by way of a distribution *in specie* of notes issued by InnVest Hotels LP or another subsidiary of the REIT (“Notes”). The aggregate principal amounts of any such Notes would equal the redemption price payable by the REIT. The term of the Notes would be 25 years, subject to earlier repayment at the option of the REIT, and the Notes would bear interest equal to the then current prime lending rate, as quoted by the provider of the REIT’s operating loan facility, plus 1%.

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

Book-Based System

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

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

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

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

Transfer and Exchange of Units

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

transfer ownership of or other interest in global unit certificates, may do so only through participants in the book-based system administered by CDS.

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

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

Limitation on Non-Resident Ownership

At no time may more than 49% of the Units (on either a basic or fully-diluted basis) be held for the benefit of non-residents of Canada (within the meaning of the Tax Act). The trustees of the REIT may require declarations as to the jurisdictions in which beneficial owners of Units are resident or declarations from holders of Units as to whether such Units are held for the benefit of non-residents.

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

Amendments to Declaration of Trust

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

The trustees of the REIT may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- (i) for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over: (A) the trustees of the REIT; (B) the status of the REIT as a "mutual fund trust" under the Tax Act; or (C) the distribution of Units;
- (ii) which, in the opinion of the trustees of the REIT, provide additional protection for the Unitholders;

- (iii) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which are, in the opinion of the trustees of the REIT, necessary or desirable and not prejudicial to the Unitholders;
- (iv) which, in the opinion of the trustees of the REIT, are necessary or desirable as a result of changes in taxation or other laws; and
- (v) for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) which, in the opinion of the trustees of the REIT, is not prejudicial to Unitholders and is necessary or desirable.

Distributions

The REIT will distribute, to the extent possible, equal monthly cash distributions to Unitholders, on or about the 15th day of each month (with the January 15th distribution being payable as of the preceding December 31st), constituting not less than 80% of the REIT's Distributable Income, based on the estimated Distributable Income for the calendar year.

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

Distributable Income is determined after deduction of a reserve for replacement of furniture, fixtures and equipment and capital improvements. The reserve on the REIT's existing portfolio is approximately 4% of the REIT's gross revenues. See "Non-GAAP Financial Measures".

Distributions may be adjusted for amounts paid in prior periods if the actual Distributable Income for the prior periods is greater than or less than the trustees' estimates for the prior periods. Unitholders will also be entitled to receive a cash distribution each year, paid on or about January 15th of the following year (being payable as of the preceding December 31st), of any excess of the REIT's income (including taxable capital gains, if any) for the purposes of the Tax Act (plus the non-taxable portion of capital gains, if any) for the year over distributions otherwise made for that year. The distributions for any month will be payable to the Unitholders of record at the close of business on the last business day of the month. Distributions shall be made in cash and may be reinvested in Units through the REIT's distribution reinvestment plan.

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

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

The adjusted cost base of Units held by a Unitholder will generally be reduced by the non-taxable portion of distributions made to such Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's Units would otherwise be a negative amount. The non-taxable portion of distributions for any year may be adjusted following any reassessment by the Canada Revenue Agency ("CRA") for that year. In 2003, 2004, 2005, 2006, 2007 and 2008 the non-taxable portion of distributions made to Unitholders was 52.50%, 46.02%, 47.23%, 40.50%, 40.00% and 44.00%, respectively.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the REIT has agreed to issue and sell an aggregate of \$50,000,000 principal amount of Debentures to the Underwriters, and the Underwriters have severally agreed to purchase from the REIT, as principals, such Debentures on or about December 30, 2009, or on such later date as the REIT and the Underwriters may agree, but in any event not later than January 7, 2010. Delivery of the Debentures is conditional upon payment on closing by the Underwriters to the REIT of \$1,000 per Debenture for a total consideration of \$50,000,000. The Underwriting Agreement provides that the REIT will pay or cause to be paid to the Underwriters a fee of \$1,875,000 (\$37.50 per Debenture) in consideration of their services in connection with the Offering. The Underwriters' fee in respect of the Debentures is payable on closing of the offering.

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

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

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. The TSX has conditionally approved the listing of the Debentures and the Units issuable upon conversion of the Debentures. The listing is subject to the REIT fulfilling all of the listing requirements of the TSX on or before March 11, 2010.

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

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

The Debentures offered by this short form prospectus have not been and will not be registered under the 1933 Act, or any U.S. state securities laws, and may not be offered or sold within the United States, except in accordance with Rule 144A under the 1933 Act to "Qualified Institutional Buyers" (as such term is defined under Rule 144A under the 1933 Act) in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws.

RELATIONSHIP BETWEEN THE REIT AND CERTAIN UNDERWRITERS

An affiliate of RBC Dominion Securities Inc. is a lender to the REIT under the Bridge Loan and the Credit Line. Certain affiliates of the Underwriters have provided and may provide in the future investment banking, commercial banking and other financial services to the REIT for which they have received or will receive compensation. Accordingly, the REIT may be considered to be a “connected issuer” of each of the Underwriters within the meaning of applicable Canadian securities legislation.

The net proceeds from the Offering will be used to repay indebtedness and for general trust purposes, which may include the repayment by the REIT of amounts outstanding under the Bridge Loan and/or the Credit Line. As at December 17, 2009, \$7 million and \$nil was outstanding under the Bridge Loan and the Credit Line, respectively. As at that date, the REIT was in compliance in all material respects with the terms and conditions of each of the Bridge Loan and the Credit Line and no breach under either facility had been waived by the lender thereto. The Bridge Loan and the Credit Line are currently secured by one property and 14 properties, respectively. There has been no material change in the financial position of the REIT since the execution of the agreements governing the Bridge Loan and the Credit Line, except as described elsewhere in this short form prospectus and in the documents incorporated by reference herein. The decision to purchase Debentures by the Underwriters was made independently of the lender under the Bridge Loan and the Credit Line and any other affiliates of the Underwriters, and no such persons had any influence as to the determination of the terms of the distribution of the Debentures. The interest rate on the Debentures, the Conversion Price and the other terms and conditions of the Offering were established through negotiations between the REIT and the Underwriters, without involvement of the lender under the Bridge Loan and the Credit Line. In addition, none of RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., TD Securities Inc., Canaccord Financial Ltd. and Blackmont Capital Inc. will receive any benefit from the Offering, other than the respective portion of the Underwriters’ fee payable by the REIT to such Underwriters.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

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

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

This summary is based upon the facts set out in this short form prospectus, in the AIF and in the Annual Financial Statements, information provided by the REIT’s management (“**Management**”), the current provisions of the Tax Act and the regulations thereunder and counsel’s understanding of the current published administrative policies and assessing practices of the CRA. This summary takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the

Minister of Finance (Canada) prior to the date hereof (the “**Tax Proposals**”). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, and does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed herein. This summary assumes that the Tax Proposals will be enacted as proposed, but no assurances can be given that this will be the case. There can be no assurances that the CRA will not change its administrative policies and assessing practices. With respect to opinions and views based on representations and statements of Management as to matters of fact, counsel has assumed the accuracy of such representations and statements in giving such opinions and views.

This summary assumes that the REIT does and will continue to qualify as a “mutual fund trust” under the Tax Act while the Debentures or Units remain outstanding. This assumption is based upon a certificate of the REIT as to certain factual matters. If the REIT does not qualify as a mutual fund trust, the income tax considerations described below would in some respects be materially different. See “— Status of the REIT”.

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

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

Taxation of Holders of Debentures

Interest on Debentures

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

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

A 1% premium paid by the REIT to a Holder of Debentures on a Put Date will generally be deemed to be interest received at that time by the Holder if such premium is paid by the REIT because of the repayment by it of the Debentures before their maturity and to the extent that such premium can reasonably be considered to relate to, and does not exceed the value on the Put Date, of the interest that would have been paid or payable by the REIT on the Debentures for taxation years of the REIT ending after the Put Date.

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

Exercise of Conversion Privilege

A Holder of a Debenture who converts a Debenture into Units pursuant to the conversion privilege will be considered to have disposed of the Debenture for proceeds of disposition equal to the aggregate of the fair market value of the Units so acquired at the time of the exchange and the amount of any cash received in lieu of fractional Units. The Holder will realize a capital gain or capital loss computed as described below under

“— Dispositions of Debentures”. The cost to the Holder of the Units so acquired will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the Holder for the purposes of calculating the adjusted cost base of such Units.

Redemption or Repayment of Debentures

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

Dispositions of Debentures

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

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the Holder’s income, except to the extent such amount was otherwise included in the Holder’s income, and will be excluded in computing the Holder’s proceeds of disposition of the Debenture. A Holder who has overaccrued interest income will generally be entitled to a deduction in computing the Holder’s income for a taxation year in which the Debenture is disposed of for an amount equal to such overaccrued interest.

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

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

Taxation of Holders of Units

Distributions on Units

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

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

The Declaration of Trust generally requires the REIT to claim the maximum amount of capital cost allowance available to it in computing its income for tax purposes, unless the Trustees determine otherwise. Based on the REIT’s distribution policy, the amount distributed to Holders of Units in a year may exceed the income of the REIT for tax purposes for that year. Distributions in excess of the REIT’s income in a year, including amounts that may reasonably be considered to be distributions of any non-taxable dividends received

by the REIT (“non-taxable dividend distributions”), will not generally be included in the Holder’s income. However, a Holder is required to reduce the adjusted cost base of the Holder’s Units by the portion of any amount paid or payable to the Holder by the REIT (other than the non-taxable portion of certain capital gains the taxable portion of which was designated by the REIT for the year as described in the paragraph below and certain non-taxable dividend distributions) that was not included in the Holder’s income and the Holder will realize a capital gain to the extent the adjusted cost base of the Units would otherwise be a negative amount.

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

For the purposes of determining the adjusted cost base of Units to a Holder thereof, when a Unit is acquired, whether as a Unit acquired pursuant to the REIT’s distribution reinvestment plan or otherwise, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Holder as capital property immediately before that time. The cost of Units acquired by reinvestment of distributions pursuant to the REIT’s distribution reinvestment plan will be the amount of such reinvestment.

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

If the REIT should become subject to tax under the SIFT Regime (see “— Taxation of the REIT” below), the *pro rata* share of a Holder of Units of amounts paid or payable by the REIT which the REIT is not entitled to deduct in computing its income by virtue of the SIFT Regime will be deemed to be a taxable dividend and an eligible dividend received by the Holder.

Dispositions of Units

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

individuals, and most trusts but not mutual fund trusts) as a result of a disposition of Units by them or a partnership of which they are a member where the REIT has made non-taxable dividend distributions.

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

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

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

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

Status of the REIT

Mutual Fund Trust

The REIT currently qualifies as a "unit trust" as defined in the Tax Act and this summary assumes that the REIT will continue to so qualify at all times. This summary also assumes that the REIT does and will continue to qualify as a "mutual fund trust" under the provisions of the Tax Act while the Debentures and Units remain outstanding.

As a "mutual fund trust", the REIT must remain a "unit trust" and must, among other matters, restrict its undertaking to: (i) the investing of its funds in property (other than real property or an interest in real property); and (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the REIT; or (iii) any combination of the activities described in (i) and (ii). The REIT must also meet certain prescribed conditions, which currently are that the REIT must have at least 150 Unitholders holding not less than one block of Units (100 Units, if the fair market value of a Unit is less than \$25) which are qualified for distribution to the public and each of such Unitholders must hold Units which have an aggregate fair market value of not less than \$500. In addition, the REIT cannot at any time reasonably be considered to be established or maintained primarily for the benefit of persons who are not resident in Canada.

If the REIT were not to qualify as a "mutual fund trust", the income tax considerations as described herein would, in some respects, be materially and adversely different, including potentially material liabilities for tax under Part XII.2 of the Tax Act.

Qualified Investment

The Units and Debentures will be qualified investments under the Tax Act for Exempt Plans. See "Eligibility for Investment".

The Units will cease to be qualified investments for Exempt Plans if the REIT ceases to qualify as a mutual fund trust and the Units cease to be listed on a designated stock exchange; and the Debentures will cease to be so qualified on the occurrence of either event if the Debentures are not listed on a designated stock exchange at the time such event occurs. Notes of InnVest Hotels LP (or of another limited partnership subsidiary of the REIT) received as a result of an *in specie* redemption of Units by the REIT would not be qualified investments for Exempt Plans, which could give rise to adverse consequences to the Exempt Plan or the annuitant or

beneficiary thereunder. Accordingly, Exempt Plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attaching to the Units.

Taxation of the REIT

SIFT Regime

A special taxation regime applies to specified investment flow-through trusts or partnerships (“SIFTs”) and investors in SIFTs. If the REIT were to become subject to this regime (the “**SIFT Regime**”), it would no longer be able to deduct any part of the amounts payable to Unitholders in respect of its “non-portfolio earnings”, which include: (i) income from its “non-portfolio properties” (in excess of any losses for the taxation year from non-portfolio properties); and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses from the disposition of such properties). For this purpose, “non-portfolio properties” include: (i) the Canadian real and immovable properties (or resource properties) of the REIT if their total fair market value is greater than 50% of the equity value of the REIT; (ii) a property that the REIT (or a person or partnership with which it does not deal at arm’s length) uses in the course of carrying on a business in Canada; and (iii) securities of a “subject entity” if the REIT holds securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity’s equity value or if the REIT holds securities of the subject entity which, together with all securities held by it in entities affiliated with the subject entity, have a total fair market value that is greater than 50% of the REIT’s equity value. A “subject entity” includes corporations resident in Canada, trusts resident in Canada and “Canadian resident partnerships”. “Securities” are broadly defined.

Most of the property of the REIT comprises Canadian hotels that it leases to subsidiary limited partnerships, and securities of subsidiary partnerships and corporations which carry on Canadian hotel or other business operations or hold Canadian hotels used in hotel operations carried on by them or non-arm’s length persons. Accordingly, most of the property of the REIT is non-portfolio property.

Income which the REIT is unable to deduct by virtue of the SIFT Regime would be taxed under the SIFT Regime at a combined federal/provincial tax rate similar to that of a corporation. The application of the SIFT Regime to the REIT would not change the treatment under the Tax Act of distributions in a year that are in excess of the REIT’s net income for the year.

Effective Dates for SIFT Regime

The SIFT Regime applies beginning with the 2007 taxation year of a trust unless (i) the trust would have been a SIFT trust on October 31, 2006 if the definition “SIFT trust” had been in force on that date and applied to the trust on that date and (ii) the trust complies with the “normal growth” guidelines issued by the Department of Finance on December 15, 2006, as amended effective December 4, 2008 and as may be amended further from time to time (the “**Growth Guidelines**”) unless the growth arises as a result of a prescribed transaction (the “**Existing Trust Exception**”). For trusts that meet the Existing Trust Exception, the SIFT Regime will apply commencing with the 2011 taxation year.

The Growth Guidelines provide that a SIFT will not be considered to have exceeded “normal growth” if its equity capital were to grow as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of \$50 million (\$100 million for the period December 4, 2008 to the end of 2010) and an objective “safe harbour”. The Growth Guidelines indicate that the safe harbour amount is measured by reference to a SIFT’s market capitalization as at the end of trading on October 31, 2006 which, in turn, is measured in terms of a SIFT’s issued and outstanding publicly-traded units (the “**Market Capitalization**”). For the period from November 1, 2006 to the end of 2007 (the “**Initial Safe Harbour Period**”), a SIFT’s safe harbour is 40% of the Market Capitalization. A SIFT’s safe harbour for 2008 is 20% and for the period from December 4, 2008 to the end of 2010 is 40%. These safe harbour amounts are cumulative, whereas the \$50 million and \$100 million growth limits for each period are not cumulative. New equity for these purposes includes units and debt that is convertible into units but will generally not include new non-convertible debt or the replacement of debt outstanding on October 31, 2006 with equity. Management has advised that the REIT’s Market Capitalization was approximately \$714 million as at October 31, 2006.

Management has advised counsel that it has calculated that the issuance of Units, convertible debentures and subscription receipts for Units since October 31, 2006 has not caused the REIT, and the issuance of Debentures and Units pursuant to this Offering will not cause the REIT, to exceed “normal growth” under the Growth Guidelines, and that Management does not currently anticipate that the REIT will (before 2011) exceed normal growth under the Growth Guidelines unless it first qualifies under the REIT Exception described immediately below. It is assumed for the purposes of this summary that the REIT will not currently be subject to the SIFT Regime. However, if the REIT issues additional Units or convertible debentures (or other equity substitutes) before 2011, the REIT may become subject to the SIFT Regime prior to its 2011 taxation year.

REIT Exception

The SIFT Regime is not applicable to real estate investment trusts that meet certain specified criteria relating to the nature of their income and investments. In particular, to qualify for the exception under the SIFT Regime applicable to real estate investment trusts (the “**REIT Exception**”) in a particular taxation year (i) the REIT must, at no time in the taxation year, hold “non-portfolio property” other than “qualified REIT properties”, (ii) not less than 95% of the REIT’s revenues for the taxation year must be derived from one or more of the following: “rent from real or immovable properties”; interest; capital gains from dispositions of “real or immovable properties”; dividends; and royalties; (iii) not less than 75% of the REIT’s revenues for the taxation year must be derived from one or more of the following: “rent from real or immovable properties”; interest from mortgages or hypothecs on “real or immovable properties”; and capital gains from dispositions of “real or immovable properties”; and (iv) at no time in the taxation year may the total fair market value of all properties held by the REIT, each of which is a “real or immovable property”, cash (including bank deposits, deposits with credit unions and bankers’ acceptances), or, generally, a debt obligation of a government in Canada or certain other public bodies, be less than 75% of the equity value of the REIT at that time. The definition of “qualified REIT property” includes property held by the REIT that is: “real or immovable property”; and property that is ancillary to the earning by the REIT of (A) rent from “real or immovable property” or (B) capital gains from the disposition of such properties. In addition, under a look-through rule, securities of a subsidiary limited partnership or corporation of the REIT could qualify as “qualified REIT property” if the subsidiary itself satisfies the four tests listed above for the REIT to qualify for the REIT Exception. For the foregoing purposes, “rent from real or immovable properties” excludes among other things rent based on profits and payments for the occupation or use of a hotel room.

Potential Impact of SIFT Regime on the REIT Commencing in 2011

Based on the information in the AIF and the Annual Financial Statements, most of the income of the REIT for 2008 would have been “non-portfolio earnings” if the SIFT Regime had applied to the REIT in that year. Accordingly, unless the REIT Exception is applicable to the REIT or there is a fundamental change in the operations of the REIT and its subsidiary partnerships and corporations, the SIFT Regime likely would, commencing in 2011 (or sooner if the REIT exceeds “normal growth” as described in the Growth Guidelines), adversely impact the level of cash distributions which would otherwise be made by the REIT.

The REIT does not currently qualify under the REIT Exception. In order for it to so qualify, it would be necessary for the REIT and various of its subsidiary limited partnerships and corporations to dispose of assets and operations that cause the REIT not to so qualify, and to thereafter restrict the nature of their assets and operations. Any such transactions may give rise to tax consequences under the Tax Act to the REIT, its subsidiaries and/or Holders of Units or Debentures. The precise nature of any such tax consequences cannot be described until the nature of the transactions that may be implemented by the REIT is determined.

Non-SIFT Rules Applicable to Taxation of the REIT

The taxation year of the REIT is the calendar year. In each taxation year, the REIT is subject to tax under the Tax Act on its income for the year, including net realized taxable capital gains, computed in accordance with the detailed provisions of the Tax Act, less the portion thereof that it deducts in respect of the amounts paid or payable or deemed to be paid or payable in the year to holders of Units. (As noted above under “— SIFT Regime”, the REIT will not generally be entitled to deduct amounts that are paid or payable by it out of non-portfolio earnings if it should become subject to taxation under the SIFT Regime.) An amount will be

considered to be payable to a holder of Units in a taxation year if it is paid to the holder in the year by the REIT or if the holder is entitled in that year to enforce payment of the amount. Counsel has been advised that the REIT intends to make distributions in each year that are not less than its income for purposes of the Tax Act, including net realized capital gains, so that the REIT will generally not be liable in such year for income tax under Part I of the Tax Act provided that it does not become subject to tax under the SIFT Regime. Counsel can provide no assurances in this regard. Losses incurred by the REIT cannot be allocated to holders of Units, but may be deducted by the REIT in future years in accordance with the Tax Act.

The income for purposes of the Tax Act of the REIT may include income realized from the rental of its rental properties; taxable capital gains, recapture of capital cost allowance or other income allocated to it by partnerships of which it is a member; dividends received from corporations in which it holds shares; and any taxable capital gains or recapture of capital cost allowance arising from dispositions by it of properties.

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

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

The Tax Act provides for a special tax, the Part XII.2 tax, on the designated income (including income from Canadian real property and taxable capital gains from dispositions of taxable Canadian property) of certain trusts which have designated beneficiaries (including non-resident persons and certain tax-exempt persons). This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided the REIT qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

PRIOR SALES

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

Date	Security	Price per Security	Number of Securities
January 9, 2009	Units ⁽¹⁾	\$ 3.42	11,060
January 15, 2009	Units ⁽²⁾	\$ 4.21	51,884
January 21, 2009	Units ⁽³⁾	\$ 2.99	19,052
February 16, 2009	Units ⁽²⁾	\$ 3.11	70,189
March 3, 2009	Units ⁽⁴⁾	\$14.90	1,342
March 13, 2009	Units ⁽²⁾	\$ 2.79	79,994
April 3, 2009	Units ⁽¹⁾	\$ 3.09	12,233
April 15, 2009	Units ⁽²⁾	\$ 3.25	70,800
May 15, 2009	Units ⁽²⁾	\$ 4.45	52,858
June 15, 2009	Units ⁽²⁾	\$ 4.28	52,275
July 15, 2009	Units ⁽²⁾	\$ 3.90	56,639
August 17, 2009	Units ⁽²⁾	\$ 3.68	70,871
September 15, 2009	Units ⁽²⁾	\$ 3.84	69,819
October 14, 2009	Units ⁽⁵⁾	\$ 3.95	12,658,000
October 15, 2009	Units ⁽²⁾	\$ 4.44	48,961
November 16, 2009	Units ⁽²⁾	\$ 4.47	48,893
December 15, 2009	Units ⁽²⁾	\$ 4.74	47,216

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

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

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

(4) Issued upon conversion of convertible debentures.

(5) Issued pursuant to the Unit Offering.

TRADING PRICE AND VOLUME

The following tables set forth, for the periods indicated, the reported high and low daily trading prices and the aggregate volume of trading of the Units and the Existing Debentures on the TSX.

	Trading of Units			Trading of 6.25% Series A Convertible Debentures		
	High	Low	Volume	High	Low	Volume
	(\$)	(\$)	(#)	(\$)	(\$)	(#)
2008						
December	3.98	2.55	4,179,281	65.00	50.00	11,240
2009						
January	5.03	2.91	3,209,006	85.00	63.02	6,450
February	3.36	2.75	2,052,211	68.00	60.05	3,350
March	3.29	2.40	2,290,930	66.00	58.01	4,040
April	3.80	3.06	2,078,451	79.25	61.05	2,900
May	4.79	3.65	2,481,133	89.00	80.01	9,150
June	4.65	3.65	3,005,169	95.00	88.75	3,820
July	4.19	3.60	3,280,321	94.50	89.00	4,690
August	3.90	3.46	5,427,090	96.00	93.00	6,840
September	4.75	3.70	19,747,124	97.50	93.01	7,190
October	5.10	4.34	7,424,009	99.99	97.00	8,530
November	4.86	4.21	6,227,395	100.00	98.50	6,760
December 1 to 17	4.98	4.68	2,803,031	100.01	99.02	8,850

	Trading of 6.00% Series B Convertible Debentures			Trading of 5.85% Series C Convertible Debentures		
	High (\$)	Low (\$)	Volume (#)	High (\$)	Low (\$)	Volume (#)
2008						
December	65.00	40.00	15,580	55.00	35.00	23,710
2009						
January	60.00	53.00	2,490	61.00	51.00	71,760
February	64.00	55.05	4,400	57.00	46.00	7,440
March	58.99	53.01	7,570	52.95	48.00	6,050
April	65.00	51.01	7,510	60.00	49.01	3,950
May	73.95	61.00	5,040	68.00	57.00	3,140
June	80.00	68.50	3,300	71.00	65.00	4,640
July	79.75	71.51	5,150	73.90	64.01	3,630
August	81.00	76.50	9,850	75.50	70.00	52,160
September	86.00	75.10	11,070	79.99	74.30	4,950
October	95.00	81.30	16,090	90.00	76.00	9,030
November	94.00	90.05	19,790	90.50	85.01	27,185
December 1 to 17	94.01	93.00	3,660	92.00	88.00	4,160

RISK FACTORS

An investment in the Debentures involves certain risks. A prospective purchaser of Debentures should carefully consider the risk factors described under: (i) the heading “Risks and Uncertainties” found on pages 22 to 24 of the Third Quarter MD&A and pages 37 to 39 of the Annual MD&A; (ii) the heading “Risk Factors” found on pages 44 to 57 of the AIF; and (iii) note 13 of the Third Quarter Financial Statements and notes 9 and 16 of the Annual Financial Statements, each of which is incorporated by reference herein. In addition, a prospective purchaser of Debentures should carefully consider the risk factors described below and in the other information contained in this short form prospectus (including the documents incorporated by reference herein).

Matters Affecting Trading Prices for the Debentures

There is currently no trading market for the Debentures. The REIT has applied to have the Debentures listed on the TSX. The TSX has conditionally approved the listing of the Debentures, subject to the REIT fulfilling all of the listing requirements of the TSX on or before March 11, 2010. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Units, general economic conditions and the REIT’s financial condition, historic financial performance and future prospects.

Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the REIT and its creditworthiness. In addition, the Debentures are unsecured obligations of the REIT and are subordinate in right of payment to all the REIT’s existing and future Senior Indebtedness. Therefore, if the REIT becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the REIT’s assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding. The Debentures are also effectively subordinate to claims of creditors of the REIT’s subsidiaries except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Indenture does not prohibit or limit the ability of the REIT or its subsidiaries to incur

additional debt or liabilities (including Senior Indebtedness) or to make distributions, except, in respect of distributions, where an Event of Default has occurred and such default has not been cured or waived. The Indenture does not contain any provision specifically intended to protect holders of Debentures in the event of a future leveraged transaction involving the REIT.

Conversion Following Certain Transactions

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

The Units are Subject to Market Price Volatility

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

Potential Dilution

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

Future Sales of Securities of the REIT

As at December 17, 2009, 87,498,354 Units were outstanding (101,045,375 Units after giving effect to the conversion of all securities convertible into Units and the vesting of all unvested Units). The REIT has a number of Unitholders that own significant numbers of Units, including Westmont Hospitality Group, Inc. which, based on public filings, owns 7.8% of the Units. All of the currently outstanding Units are eligible for sale in the public market, subject to any applicable restrictions under securities laws. Westmont Hospitality Group, Inc. may at any time sell any or all of the securities of the REIT that it owns. Sales of a substantial number of Units or other securities of the REIT in the public market could adversely affect the prevailing market price of the Units or Debentures or other securities of the REIT and could impair the REIT’s ability to raise additional capital.

Distributions

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

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

Structural Subordination of Units

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of the REIT and those subsidiaries before any assets are made available for distribution to the Unitholders. The Units will be effectively subordinated to most of the indebtedness and other liabilities of the REIT and its subsidiaries, expected to be approximately \$1,402 million upon the closing of the Offering. Neither the REIT nor any of its subsidiaries will be limited in its ability to incur additional secured or unsecured indebtedness.

LEGAL MATTERS

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

AUDITORS, TRANSFER AGENT AND REGISTRAR

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

The transfer agent and registrar for the Debentures and the Units is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

PURCHASERS' STATUTORY RIGHTS

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

AUDITORS' CONSENT

We have read the short form prospectus (the “**Prospectus**”) of InnVest Real Estate Investment Trust (the “**REIT**”) dated December 18, 2009 qualifying the distribution of \$50,000,000 aggregate principal amount of 6.75% convertible unsecured subordinated debentures of the REIT. We have complied with Canadian generally accepted standards for an auditor’s involvement with offering documents.

We consent to the incorporation by reference in the Prospectus of our report to the unitholders of the REIT on the consolidated balance sheets of the REIT as at December 31, 2008 and December 31, 2007, and the consolidated statements of net (loss) income and comprehensive (loss) income, unitholders’ equity and cash flows for the years then ended. Our report is dated March 4, 2009.

Toronto, Ontario
December 18, 2009

DELOITTE & TOUCHE LLP
Chartered Accountants
Licensed Public Accountants

CERTIFICATE OF THE REIT

Dated: December 18, 2009

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

(Signed) KENNETH GIBSON
Chief Executive Officer

(Signed) TAMARA LAWSON
Chief Financial Officer

On behalf of the Board of Trustees

(Signed) FRANK ANDERSON
Trustee

(Signed) MAJID MANGALJI
Trustee

CERTIFICATE OF THE UNDERWRITERS

Dated: December 18, 2009

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

RBC DOMINION SECURITIES INC.

SCOTIA CAPITAL INC.

By: (Signed) RICHARD N. MATHESON

By: (Signed) STEPHEN SENDER

BMO NESBITT BURNS INC.

By: (Signed) DEREK DERMOTT

CIBC WORLD MARKETS INC.

TD SECURITIES INC.

By: (Signed) ALLAN KIMBERLEY

By: (Signed) KURSAT KACIRA

CANACCORD FINANCIAL LTD.

BLACKMONT CAPITAL INC.

By: (Signed) MARK EDWARDS

By: (Signed) KEVIN SPALL



InnVest

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