INNVEST

INNVEST REAL ESTATE INVESTMENT TRUST | QUARTERLY REPORT 2012

Q2 2012

An in-depth look at InnVest's financial results for the three and six months ended June 30, 2012.

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Letter to Unitholders

We continue to see improvement in the Canadian lodging industry's fundamentals. Our portfolio achieved rate growth across all regions this quarter led by strength in western Canada which is benefitting from a strong resource sector and targeted renovations undertaken. Recent proactive capital management initiatives have strengthened our balance sheet by extending our debt maturities and lowering our overall cost of debt.

Second Quarter Highlights

- Revenue per available room on a same hotel basis increased 2.9% driven by a 3.0% increase in average daily rate;
- Gross operating profit generated from hotel operations increased 0.9% to $41.2 million. Hotel GOP improvement of 1.8% in InnVest's same-hotel portfolio was offset by reduced Hotel GOP following asset sales and the closure of one hotel for a portion of the quarter;
- Net income was relatively unchanged at $2.0 million. Excluding non-cash charges required by IFRS (unrealized gains and losses on liabilities presented at fair value and finance costs relating to the presentation of certain equity instruments as liabilities under IFRS), deferred income taxes, non-recurring other income and depreciation and amortization, InnVest realized an adjusted net income of $22.7 million compared to $22.2 million in the prior period;
- Funds from operations of $0.228 per diluted unit compared to $0.240 per diluted unit in the prior period. Distributable income was $0.178 per unit diluted as compared with $0.192 in the prior period. The declines reflect the one-time benefit of $2.1 million in interest earned in the prior year;
- During the quarter, InnVest refinanced a $166.3 million mortgage which was scheduled to expire in November 2012. InnVest is in the process of finalizing the renewal of its remaining 2012 mortgage maturities totaling $12.4 million, and;
- On July 3, 2012, InnVest completed an internal reorganization to unwind the stapled unit structure which was approved by InnVest's unitholders at a special meeting on February 23, 2012.

Uncertainty in the world economy continues to impact our business. InnVest's broad, diversified portfolio remains a key advantage in the current environment.

Looking ahead, we are focused on driving internal growth within our existing portfolio. In 2011, we began an important multi-year capital program to enhance our product offering at a number of our hotels. These targeted investments are expected to improve our hotels' competitive positioning and operating performance through increased occupancies and rates. An enhanced product, coupled with improving demand and constrained new supply should enable InnVest to realize cash flow growth. The ultimate extent and timing of planned capital investments will be dependent on business levels and capital availability.

Kenneth Gibson
Chief Executive Officer

August 8, 2012

Management's Discussion and Analysis

INTRODUCTION

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust which owns a portfolio of 140 hotels across Canada representing approximately 18,200 guest rooms operated under internationally recognized brands. Through June 30, 2012, the REIT leased its hotels to InnVest Operations Trust ("IOT"), an unincorporated open-ended taxable investment trust. IOT indirectly holds all of the hotel operating assets, earns revenues from hotel customers and, through June 30, 2012, paid rent to the REIT. IOT also indirectly holds a 50% interest in Choice Hotels Canada Inc., one of the largest franchisors of hotels in Canada, and earns revenues from franchising fees. The REIT and IOT are both governed by the laws of Ontario and a Declaration of Trust. The REIT and IOT are collectively referred to in this management's discussion and analysis ("MD&A") as "InnVest". The unaudited condensed consolidated financial statements ("Interim Financial Statements") and financial data included in this MD&A reflect the unaudited condensed consolidated financial results of IOT and the REIT. Refer to page 4 for a discussion of changes to InnVest's corporate structure effective July 3, 2012. This MD&A is dated August 8, 2012.

The following MD&A is intended to assist readers in understanding InnVest, its history, business environment, strategies, performance and risk factors and includes a discussion of the results of operations and financial condition of InnVest for the three and six months ended June 30, 2012, with a comparison to the results of operations of InnVest for the three and six months ended June 30, 2011. The MD&A should be read in conjunction with the Interim Financial Statements of InnVest and the notes thereto as at, and for three and six months ended, June 30, 2012 and 2011.

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

Certain measures in this MD&A do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") and therefore are considered non-IFRS measures. Please refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 15 for a discussion of those measures used by InnVest, including a reconciliation to IFRS financial measures.

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

FORWARD-LOOKING STATEMENTS

In the interest of providing InnVest unitholders and potential investors with information regarding InnVest, certain statements contained in this M&DA constitute forward-looking statements within the meaning of applicable securities laws. These statements include, but are not limited to, statements made concerning InnVest's objectives, its strategies to achieve those objectives, as well as other statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances and performance or expectations that are not historical facts. Forward-looking information typically contains statements with words such as "outlook", "objective", "may", "continue", "anticipate", "believe", "expect", "estimate", "plan", "intend", "forecast", "project" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on InnVest's estimates and assumptions, which are subject to risks and uncertainties, including those described under "Risks and uncertainties" in this MD&A. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By its nature, InnVest's forward-looking information involves numerous assumptions, inherent risks and uncertainties, which may cause InnVest's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Factors that could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, changes in business strategies; general global economic and business conditions; medical concerns relating to travel and/or specific destinations; 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; and technological changes.

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

Except as required by law, InnVest does not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. All forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

BUSINESS OVERVIEW

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

Hotel Real Estate Owner

As at June 30, 2012, InnVest's portfolio comprised 140 hotel properties operated under internationally recognized franchise brands. The hotel portfolio is evenly divided between full-service and limited-service hotels based on number of rooms. Full-service hotels however, generate higher revenues per room given higher ADRs charged and greater ancillary services sold. As a result, full-service hotels in the portfolio accounted for approximately 67% of hotel revenues during the six months ended June 30, 2012. Year-to-date, approximately 78% of hotel revenues were generated from room revenues with the remainder being generated from food and beverage sales and other services including meeting space rental, parking, retail operations and telephone use.

InnVest's hotels are operated by four hotel management companies which earn base and incentive fees related to the revenues and profitability of each hotel. The hotels' primary operating costs include wages, food costs, utilities, management fees and sales and marketing expenses. Other property level expenses include property taxes, ground rent for leasehold interests and property insurance. Many of these property level expenses are relatively fixed and do not necessarily change in accordance with revenue levels.

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

	Ontario		Quebec		Atlantic		Western		Total		
	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms
Comfort Inn	35	2,832	21	1,661	15	1,118	9	745	80	6,356	34.9%
Delta Hotel	1	220	3	1,048	4	1,017	2	689	10	2,974	16.3%
Holiday Inn, Holiday Inn Express	13	2,180	1	176	1	196	1	151	16	2,703	14.8%
Quality Hotel, Quality Suites	5	881	5	689	1	159	1	126	12	1,855	10.2%
Travelodge	3	368	–	–	–	–	3	642	6	1,010	5.5%
Hilton Hotel	–	–	1	571	1	197	–	–	2	768	4.2%
Fairmont Hotels & Resorts	–	–	–	–	–	–	2	604	2	604	3.3%
Radisson Hotel/Suites	2	388	–	–	–	–	–	–	2	388	2.2%
Staybridge Suites	3	342	–	–	–	–	–	–	3	342	1.9%
Sheraton Suites	–	–	–	–	–	–	1	323	1	323	1.8%
Best Western	1	130	–	–	–	–	–	–	1	130	0.7%
Hilton Garden Inn	1	120	–	–	–	–	–	–	1	120	0.7%
Hilton Homewood Suites	1	83	–	–	–	–	–	–	1	83	0.5%
Independent	3	554	–	–	–	–	–	–	3	554	3.0%
Total	68	8,098	31	4,145	22	2,687	19	3,280	140	18,210	100.0%

Franchise Business

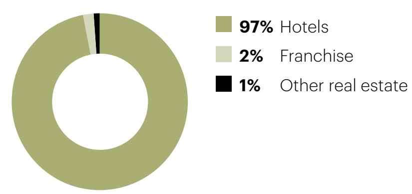
InnVest owns 50% of Choice Hotels Canada Inc. ("CHC"), which has franchise agreements with approximately 300 locations in Canada. The remaining 50% interest is owned by Choice Hotels International Inc. ("Choice International"), one of the largest hotel franchise companies in the world. In addition to strong international brand recognition, Choice International has a centralized reservation system, sales and marketing programs and proprietary property management systems.

In 1993, CHC was granted a 99-year licence to franchise all Choice hotel brands in Canada, including Comfort Inn, Quality Suites and Quality Hotels. CHC earns franchise revenue by charging hotel owners a monthly royalty fee based on a percentage of the revenue generated by the licenced properties and by selling franchises.

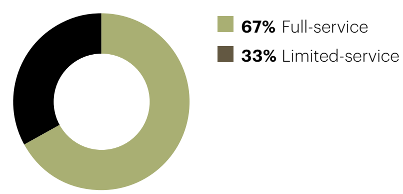
Office, Retail and Retirement Home Business

InnVest owns office and retail real estate as well as a retirement home. These real estate interests are adjacent to owned hotels and were acquired as part of certain hotel acquisitions.

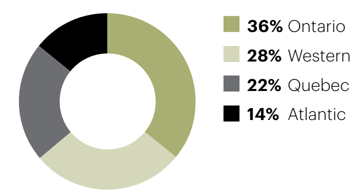
2012 YEAR-TO-DATE TOTAL REVENUES



2012 YEAR-TO-DATE HOTEL REVENUES BY SERVICE CATEGORY



2012 YEAR-TO-DATE HOTEL REVENUES BY GEOGRAPHY



Reorganization of InnVest's tax structure

On July 3, 2012, InnVest completed an internal reorganization to unwind the stapled unit structure (the "2012 Reorganization"), which was approved by InnVest's unitholders at a special meeting on February 23, 2012.

InnVest pursued the 2012 Reorganization in response to announced changes to the federal income tax rules applicable to issuers of stapled securities, which were expected to apply to InnVest as of July 20, 2012. The 2012 Reorganization has resulted in, among other things, the transfer of substantially all of IOT's assets and liabilities to the REIT and the unwinding of the stapled structure of InnVest so that IOT became a wholly-owned subsidiary of the REIT.

Prior to the 2012 Reorganization, the trust units of the REIT (the "InnVest Units") and the non-voting trust units of IOT (the "IOT Units") traded together on the Toronto Stock Exchange (the "TSX") as stapled units (the "Stapled Units") under the symbol INN.UN. As a result of the 2012 Reorganization, effective as of July 3, 2012, the InnVest Units continue to trade on the TSX under the symbol INN.UN and the IOT Units have been cancelled and are no longer listed on the TSX. Each unitholder holds the same number of InnVest Units immediately following the 2012 Reorganization as the number of Stapled Units held by it immediately prior to the 2012 Reorganization. In addition, InnVest's convertible debentures are now convertible into InnVest Units only, rather than an equal number of InnVest Units and IOT Units. The conversion rate and conversion price of each series of debentures otherwise remain the same. Prior to the completion of the 2012 Reorganization, InnVest was restricted from issuing Stapled Units, subject to certain exceptions. As a consequence, InnVest had suspended its distribution reinvestment plan ("DRIP") in August 2011 and satisfied all Trustee and deferred executive compensation in cash as opposed to the usual partial satisfaction in the form of units. Effective July 3, 2012, InnVest reinstated its DRIP and has resumed the issuance of units to satisfy Trustee and executive compensation.

Under currently enacted tax law, following completion of the 2012 Reorganization, InnVest does not meet the conditions required to be a real estate investment trust ("Qualified REIT") as defined in the Income tax Act. As a result, effective July 3, 2012, InnVest is subject to the Specified investment flow-through ("SIFT") tax regime in the Income tax Act whereby its income would be subject to a corporate-like rate of income tax assuming its taxable income is distributed each year. Because application of the SIFT tax regime results in an entity-level tax, InnVest would be required to pay current income taxes on its taxable income and would also be required to record deferred taxes in respect of its temporary differences related primarily to its real estate assets.

Accordingly, InnVest may be required to record (effective for its third quarter of 2012) a deferred tax liability, based on the undistributed rate of income tax applicable to a SIFT trust (estimated to be 46.5%), of approximately $208.0 million which will be charged to earnings. InnVest is working with its operating line lender to modify the minimum equity covenant restrictions to exclude this deferred income tax impact.

InnVest unitholders' interest in IOT through ownership of the IOT non-voting units, which is included in 'Unitholders and other liabilities' at June 30, 2012, will also be reclassified to unitholders' equity at July 3, 2012.

The Minister of Finance has proposed amendments which would retroactively amend the conditions required to be a Qualified REIT as defined in the Income Tax Act. Even if those amendments are enacted as proposed, there are substantial factual uncertainties as to whether InnVest would be a Qualified REIT for its taxation years ending after the 2012 Reorganization under such proposed amendments.

BUSINESS STRATEGY

The long-term view on the industry is positive based on improving hotel demand and a low supply environment. InnVest is focused on internal growth in its existing portfolio through revenue enhancing and cost reduction initiatives and making prudent capital allocation decisions to increase long-term value and grow cash flows. InnVest expects to undertake an important capital investment program to help revitalize its portfolio of limited-service hotels as well as invest in brand initiatives including Delta, Holiday Inn, Hilton and Radisson hotels. The ultimate extent and timing of these planned capital investments will be dependent on business levels and capital availability.

Operating Strategy

InnVest's operating focus aims to enhance the performance of each hotel and improve its RevPAR penetration versus its competitive set. Since early 2011, several profit-improving capital investment projects have been undertaken to help hotels capture greater market share from their competitors. InnVest continues to manage its portfolio aggressively with emphasis on cost efficiencies and maximizing the performance and cash flow of each of its hotels.

InnVest's diversification by location, brand, customer and market position is a core component of its operating strategy. Since individual markets can be affected by local events and economic conditions, geographic diversification helps limit the impact of such factors on the overall portfolio. Diversification across customers and brands allows InnVest to effectively manage its rooms based on changing demand drivers, thereby optimizing financial performance through improved occupancy and ADR.

InnVest's hotels are managed by four hotel management companies, each bringing unique expertise to the portfolio. Westmont Hospitality Canada Limited ("Westmont"), a division of one of the largest privately held managers of hotels in the world, manages the majority of InnVest's hotels (126 hotels). InnVest also partners with other third party managers including Delta Hotels (9 hotels), Fairmont Hotels (3 hotels) and Hilton Hotels (2 hotels), each an experienced hotel manager with recognized brands.

Capital Allocation Strategy

InnVest continually evaluates its capital allocation opportunities to drive the long-term profitability of the portfolio. Following its inception, InnVest expanded its portfolio, broadening its market base and diversifying its risk profile by growing its full-service portfolio. In recent years, InnVest's capital allocation efforts have been focused on maximizing the potential of its existing portfolio by investing capital into internal profit-improving opportunities. Acquisition opportunities that meet InnVest's investment parameters have been limited over the past several years, however availability is expected to increase as operating trends in the industry improve.

InnVest constantly evaluates its current real estate holdings to optimize diversification and capitalize on embedded value or higher return opportunities. From time to time, certain assets are identified that may not support InnVest's long term objectives given limited growth prospects in earnings and value.

InnVest's ability to recycle capital through hotel sales has been impacted by constrained financing availability which has limited the pool of buyers and proceeds offered. Today's lending environment favours larger, diversified portfolios with long-established lender relationships. With favourable industry performance expectations, financing conditions are expected to improve, enabling buyer and seller expectations to converge. InnVest is exploring asset sale opportunities for a limited number of non-strategic assets where the potential for earnings growth is slower, the long-term capital needs are higher or where InnVest can capitalize on embedded value.

During the second quarter, InnVest completed the sale of three hotels (405 rooms) for gross proceeds of $19.2 million resulting in a $1.3 million gain on sale. Net proceeds after closing costs and debt repayment totaled $9.4 million. One additional hotel, previously held as an operating lease, was sold during the first quarter. As at June 30, 2012, InnVest has two limited-service hotels classified as held for sale (140 rooms).

OUTLOOK

Uncertainty in the world economy continues to impact our business. InnVest's broad, diversified portfolio remains a key advantage in the current environment.

Looking ahead, we are focused on driving internal growth within our existing portfolio. In 2011, we began an important multi-year capital program to enhance our product offering at a number of our hotels. These targeted investments are expected to improve our hotels' competitive positioning and operating performance through increased occupancies and rates. An enhanced product, coupled with improving demand and constrained new supply should enable InnVest to realize cash flow growth. The ultimate extent and timing of planned capital investments will be dependent on business levels and capital availability.

RESULTS OF OPERATIONS – THREE AND SIX MONTHS ENDED JUNE 30, 2012

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Variance	**2012**	2011	Variance
Revenues	**$ 164,258**	$ 161,733	1.6%	**$ 296,181**	$ 290,767	1.9%
Gross operating profit(1)	**42,386**	42,001	0.9%	**60,124**	58,634	2.5%
Net income (loss) and comprehensive income (loss)	**1,963**	1,965	(0.1%)	**(28,234)**	(18,070)	56.2%
Funds from operations(1)	**23,144**	24,498	(5.5%)	**20,988**	21,498	(2.4%)
Distributable income(1)	**17,955**	19,487	(7.9%)	**12,054**	12,765	(5.6%)
Distributions declared	**9,345**	11,694	(20.1%)	**18,689**	23,065	(19.0%)
Per unit diluted:						
Net income (loss) and comprehensive income (loss)	**$ 0.021**	$ 0.021	–	**$ (0.302)**	$ (0.197)	53.3%
Funds from operations	**0.228**	0.240	(5.0%)	**0.224**	0.233	(3.9%)
Distributable income(2)	**0.178**	0.192	(7.3%)	**0.128**	0.138	(7.2%)
Distributions	**0.0999**	0.1251	(20.1%)	**0.1998**	0.2502	(20.1%)

(1) Refer to *Non-IFRS Financial Measures and Additional IFRS Measures* on page 15.
(2) Distributable income per unit is calculated on a basis consistent with that prescribed by IFRS for calculating net income per unit.

Revenues

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Variance	**2012**	2011	Variance
Hotel	**$ 160,303**	$ 158,103	1.4%	**$ 289,281**	$ 284,377	1.7%
Franchise	**3,109**	2,730	13.9%	**5,222**	4,575	14.1%
Other real estate properties	**846**	900	(6.0%)	**1,678**	1,815	(7.5%)
Revenues	**$ 164,258**	$ 161,733	1.6%	**$ 296,181**	$ 290,767	1.9%

During the three and six months ended June 30, 2012, revenues increased as compared to the same periods in 2011 driven by improved hotel performance. Generating approximately 97% of total revenues year-to-date, InnVest's principal business is the ownership of hotel real estate (see detailed discussion below). Franchise revenues (representing InnVest's 50% proportionate share of CHC) increased in each of the three and six months ended June 30, 2012 reflecting the growth in CHC franchise distribution and room revenues during the period. Revenues from other real estate properties were down during the three and six month periods as operations ramp up following renovations completed during the second quarter.

HOTEL REVENUES

Hotel revenues consist primarily of revenue generated from room occupancy. Non-room revenues include food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, parking and telephone. Room revenues accounted for approximately 78% of total hotel revenues during each of the three and six months ended June 30, 2012, unchanged from the prior year.

The hospitality industry is highly correlated to the economy given its impact on discretionary travel demand, including demand from corporate and leisure customers. For the three and six months ended June 30, 2012, hotel revenues increased 1.4% and 1.7%. This improvement was driven by RevPAR growth achieved which was somewhat offset by the sale of four assets in 2012 (three in Q2 and one in Q1) as well as the disruption caused by the closure of one hotel for seven weeks during the second quarter. During the three and six months ended June 30, 2012, same-hotel RevPAR, excluding these hotels, grew 2.9% and 2.4% led by growth in ADR.

	Three Months Ended June 30, 2012	Variance to 2011	Six Months Ended June 30, 2012	Variance to 2011
Occupancy				
Ontario	**62.1%**	(0.9 pts)	**57.0%**	(1.6 pts)
Quebec	**65.9%**	0.3 pts	**60.1%**	1.0 pts
Atlantic	**61.7%**	(0.7 pts)	**55.3%**	(0.7 pts)
Western	**68.0%**	2.1 pts	**64.2%**	2.5 pts
Total	**64.0%**	–	**58.8%**	(0.1.pts)
ADR				
Ontario	**$ 107.69**	2.4%	**$ 107.24**	2.1%
Quebec	**$ 118.98**	0.4%	**$ 112.85**	(0.3%)
Atlantic	**$ 118.26**	0.8%	**$ 113.11**	0.1%
Western	**$ 152.08**	7.3%	**$ 150.01**	6.3%
Total	**$ 120.44**	3.0%	**$ 117.86**	2.6%
RevPAR				
Ontario	**$ 66.83**	0.9%	**$ 61.11**	(0.8%)
Quebec	**$ 78.37**	0.7%	**$ 67.83**	1.4%
Atlantic	**$ 72.98**	(0.3%)	**$ 62.52**	(1.3%)
Western	**$ 103.36**	10.6%	**$ 96.35**	10.7%
Total	**$ 77.03**	2.9%	**$ 69.26**	2.4%

Note: Gross hotel revenues on a same-hotel basis, excluding four hotels which were sold in 2012 and one hotel which was closed for a portion of the periods presented.

Room Revenues

Room revenues for the three and six months ended June 30, 2012 increased 1.7% and 2.0% largely reflecting the RevPAR gains achieved. Growth in InnVest's same-hotel portfolio during the second quarter was offset by reduced revenues following asset sales ($213) and the closure of one hotel ($637) for seven weeks due to an electrical malfunction. This hotel reopened in late July 2012. InnVest expects to recover lost earnings at this hotel through a business interruption claim. No insurance proceeds were recognized during the second quarter of 2012. Hotel room revenues are net of $2.4 million and $4.6 million (2011 – $2.3 million and $4.4 million) of costs associated with third party loyalty programs for the three and six months ended June 30, 2012.

	2012 Number of Hotel Rooms	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
Room revenue variance to 2011		$	%	$	%
Base Portfolio					
Ontario	7,955	**$ 135**	0.3%	**$ (712)**	(0.8%)
Quebec	4,145	**64**	0.2%	**684**	1.4%
Atlantic	2,687	**(123)**	(0.7%)	**(437)**	(1.4%)
Western	3,280	**2,932**	10.7%	**5,750**	11.4%
Total Base Portfolio	18,067	**$ 3,008**	2.5%	**$ 5,285**	2.4%
2012 dispositions and hotel closure	732	**(850)**	(37.9%)	**(790)**	(20.1%)
Total Portfolio	18,799	**$ 2,158**	1.7%	**$ 4,494**	2.0%

Base Portfolio analysis for the three months ended June 30, 2012

- ADR growth in Ontario offset a modest occupancy decline during the period contributing to a 0.3% increase in total room revenue. Operating performance was relatively stable throughout the region.
- The Quebec region realized a 0.2% growth in room revenue benefitting from modest improvement in occupancy and ADR. Strength in rural Quebec was somewhat offset by weaker results in downtown Montreal given softer demand in the market as compared to the prior year.
- Increased ADR was offset by reduced occupancy in the Atlantic region contributing to a modest 0.7% decline in room revenue. The year-over-year decline was attributable to the prior year benefit of a one-time event in Prince Edward Island which offset growth realized in Nova Scotia and Newfoundland in 2012.
- Western hotels realized room revenue increases of 10.7% driven by a combination of occupancy and ADR gains. Strength was realized across most markets led by an over 20% RevPAR gain at the Fairmont Palliser following hotel renovations completed in the second quarter of 2011.

Base Portfolio analysis for the six months ended June 30, 2012

- The Ontario region saw room revenue decline 0.8% with ADR growth offset by reduced occupancy. The year-over-year decline was primarily attributable to softness throughout southwestern Ontario.
- The Quebec region realized a 1.4% growth in room revenue driven by performance in Quebec City and rural Quebec.
- Room revenue in the Atlantic region decreased 1.4% driven by reduced occupancy. The year-over-year decline was attributable to the prior year benefit of the Canada Winter Games in Halifax in the first quarter and a one-time event in Prince Edward Island during the second quarter.
- Western hotels realized room revenue increases of 11.4% driven by a combination of occupancy and ADR gains, led by an approximate 25% RevPAR gain at the Fairmont Palliser.

Non-Room Revenues

Non-room revenues for the three and six months ended June 30, 2012 totaled $34.6 million and $63.0 million, up 0.1% and 0.7% respectively.

Hotel, Other Real Estate Properties and Franchise Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Variance	**2012**	2011	Variance
Operating expenses	**$ 100,407**	$ 98,454	2.0%	**$ 194,862**	$ 191,426	1.8%
Property taxes, rent and insurance	**12,900**	13,430	(3.9%)	**26,062**	26,789	(2.7%)
Management fees	**6,341**	5,881	7.8%	**11,395**	10,637	7.1%
Franchise	**2,224**	1,967	13.1%	**3,738**	3,281	13.9%
Hotel, other real estate properties and franchise expenses	**$ 121,872**	$ 119,732	1.8%	**$ 236,057**	$ 232,133	1.7%

InnVest continually focuses on managing all costs to maximize overall profitability without impacting the service levels offered to its guests. Further savings opportunities are limited given the extent of adjustments made throughout the portfolio over the last several years. Management's focus is on limiting incremental costs associated with improved occupancy in the portfolio to enable margin expansion. Many property level expenses, including property taxes, rent and insurance are relatively fixed and do not necessarily change in accordance with overall demand levels.

Hotel, other real estate properties and franchise expenses for the three and six months ended June 30, 2012 increased 1.8% and 1.7% when compared to the same period in 2011. Operating expenses reflect inflationary cost increases which were somewhat offset by property tax savings achieved. Higher management fees are reflective of increased revenues realized and incentive fee expectations in select hotels. The increase in franchise expenses reflects incremental costs associated with the growth in CHC franchise distribution as compared to the prior period.

Gross Operating Profit

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Variance	**2012**	2011	Variance
Hotel properties	**$ 41,208**	$ 40,838	0.9%	**$ 58,095**	$ 56,586	2.7%
Franchise business	**885**	763	16.0%	**1,484**	1,294	14.7%
Other real estate properties	**293**	400	(26.8%)	**545**	754	(27.7%)
Gross operating profit	**$ 42,386**	$ 42,001	0.9%	**$ 60,124**	$ 58,634	2.5%

Gross operating profit ("GOP") for the three and six months ended June 30, 2012 improved 0.9% and 2.5% resulting from the increase in gross operating profit from hotel operations ("Hotel GOP"). Gains in franchise GOP (growth in franchise business) was offset by a reduction in GOP from other real estate properties (displacement caused by renovations).

HOTEL GOP

The hotel industry has a high level of fixed costs with incremental revenue gains requiring marginal increases in costs. As a result, revenue growth achieved beyond inflation contributes to substantial operating leverage for the portfolio. Notably, while occupancy growth contributes to improved profitability, more profit is achieved through increases in ADR.

For the three months ended June 30, 2012, Hotel GOP increased 0.9% or $370 as compared to the prior year. Growth of 1.8% in InnVest's same-hotel portfolio during the second quarter was offset by reduced Hotel GOP following asset sales ($83) and the closure of one hotel ($269) for 7 weeks during the quarter. Hotel GOP margins declined 10 basis points to 25.7% during the second quarter with a 1.4% growth in hotel revenues offset by inflationary growth in operating expenses of 1.6%.

For the six months ended June 30, 2012, Hotel GOP margins increased 20 basis points to 20.1% with Hotel GOP up 2.7% or $1.5 million as compared to the prior year.

Hotel GOP variance to 2011	2012 Number of Hotel Rooms	Three Months Ended June 30, 2012 $	Three Months Ended June 30, 2012 %	Six Months Ended June 30, 2012 $	Six Months Ended June 30, 2012 %
Base Portfolio					
Ontario	7,955	**$ (120)**	(0.9%)	**$ (1)**	– %
Quebec	4,145	**(545)**	(5.6%)	**(597)**	(5.4%)
Atlantic	2,687	**(224)**	(4.2%)	**(602)**	(10.4%)
Western	3,280	**1,611**	14.2%	**3,124**	16.8%
Total Base Portfolio	18,067	**$ 722**	1.8%	**$ 1,924**	3.5%
2012 dispositions and hotel closure	732	**(352)**	(42.2%)	**(415)**	(34.8%)
Total Portfolio	18,799	**$ 370**	0.9%	**$ 1,509**	2.7%

Other Expenses

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Variance	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011	Variance
Corporate and administrative	**$ 1,530**	$ 1,323	15.6%	**$ 3,223**	$ 2,689	19.9%
Interest expense:						
Mortgages and other debt	**12,518**	12,915	(3.1%)	**25,364**	26,321	(3.6%)
Convertible debentures	**5,625**	5,593	0.6%	**11,211**	10,481	7.0%
Other income, net	**(1,457)**	(2,328)	nm	**(1,468)**	(2,355)	nm
Depreciation and amortization	**23,824**	24,936	(4.5%)	**47,793**	48,466	(1.4%)
Other expenses	**$ 42,040**	$ 42,439	(0.9%)	**$ 86,123**	$ 85,602	0.6%

"nm" – not meaningful

Other expenses for the three and six months ended June 30, 2012 decreased $399 and increased $521, respectively. Higher corporate and administrative expenses reflect costs associated with the 2012 Reorganization.

Mortgage interest expense over the periods presented reflects the benefit of lower average interest rates following recent mortgage renewals. The six months ended June 30, 2012 include the full period inclusion of the $50.0 million of Series F Stapled Debentures which were issued in March 2011.

Other income in the three months ended June 30, 2012 includes a $1.3 million gain on the sale of three assets during the second quarter of 2012, and the $801 reversal of a previous impairment charge. These amounts offset a $687 impairment recognized on one asset triggered by a change in the long-term holding expectation for the asset. The prior period included $2.1 million of non-recurring interest earned related to prior periods' GST/HST input tax credits.

Finance costs – Distributions

For the three and six months ended June 30, 2012, $37 (2011 – $621) and $73 (2011 – $2.3 million) of distributions paid are categorized as finance costs. These relate to certain equity-based instruments which are classified as liabilities and whose corresponding distributions are treated as finance costs. All distributions declared in 2012 were allocated to the REIT units (and shown as an equity distribution) as compared to a portion which were allocated to IOT unitholders (and shown as an expense) in the prior period.

Unrealized Fair Value Gain (Loss)

InnVest is required to account for various unit-based instruments as financial liabilities. These instruments are remeasured at their fair value at each reporting period resulting in non-cash gains or losses based upon the price of InnVest's units at each reporting date. The unrealized non-cash gains or losses are recognized in the consolidated statement of net income (loss).

The decrease in the market price of InnVest units at June 29, 2012 ($4.70) as compared to March 30, 2012 ($5.26) contributed to a reduced liability value as at the reporting date and a corresponding non-cash gain of $2.3 million to earnings during the three months ended June 30, 2012. Similarly, the prior period reflected the lower market price of InnVest units at June 30, 2011 ($6.78) as compared to March 31, 2011 ($6.93) resulting in a corresponding non-cash gain of $4.7 million.

During the six months ended June 30, 2012, the increase in the market price of InnVest units at June 29, 2012 ($4.70) as compared to December 31, 2011 ($4.13) contributed to an increased liability value as at the reporting date and a corresponding non-cash loss to earnings of $11.8 million compared to a prior period gain of $2.2 million.

Income Taxes

For the three and six months ended June 30, 2012, InnVest generated a deferred income tax expense of $673 and a deferred income tax recovery of $9.7 million, respectively. The year-to-date deferred tax recovery primarily reflects the estimated tax losses in IOT which are recognized at the undistributed tax rate. Refer to *Reorganization of InnVest's tax structure* on page 4 for a discussion of income tax implications relating to the 2012 Reorganization.

For 2012, management estimates that approximately 40% of distributions will not be taxable to unitholders (2011 – 60%).

Net Income (Loss)

For the three months ended June 30, 2012, InnVest realized net income of $2.0 million, or $0.021, each unchanged from the prior year. For the six months ended June 30, 2012, InnVest realized a net loss of $28.2 million, or $0.302 per unit diluted compared to a loss of $18.1 million, or $0.197 per unit diluted for the same period in 2011. Excluding non-cash charges required by IFRS (unrealized gains and losses on liabilities presented at fair value and finance costs relating to the presentation of certain equity instruments as liabilities under IFRS), deferred income taxes, non-recurring other income and depreciation and amortization, InnVest realized an adjusted net income of $22.7 million and $20.3 million for the three and six months ended June 30, 2012, improving $543 and $1.2 million compared to the prior periods.

Funds from Operations

For the three months ended June 30, 2012, InnVest generated FFO of $23.1 million ($0.228 per unit diluted) compared to $24.5 million in the prior period ($0.240 per unit diluted). The $1.4 million decline primarily reflects the one-time benefit of $2.1 million in interest earned in the prior year. For the six months ended June 30, 2012, InnVest generated FFO of $21.0 million compared to $21.5 million in the prior year. Refer to *Non-IFRS Financial Measures and Additional IFRS Measures* on page 15 for a reconciliation of net income (loss) to FFO.

Distributable Income

For the three months ended June 30, 2012, InnVest generated distributable income of $18.0 million ($0.178 per unit diluted) compared to $19.5 million in the prior period ($0.192 per unit diluted). The $1.5 million decline primarily reflects the one-time benefit of $2.1 million in interest earned in the prior year. For the six months ended June 30, 2012, InnVest generated distributable income of $12.1 million compared to $12.8 million in the prior year. Refer to *Non-IFRS Financial Measures and Additional IFRS Financial Measures* on page 15 for a reconciliation of IFRS net income (loss) to distributable income.

Distributions declared in the six months ended June 30, 2012 totaled $18.7 million, or $0.1998 per unit (2011 – $23.1 million or $0.2502 per unit). The decrease in total distributions paid reflects reduced monthly distributions beginning in November 2011. Refer to *Distributions to Unitholders* on page 14.

CHANGES IN FINANCIAL CONDITION

Operating Activities

For the six months ended June 30, 2012, cash generated by operating activities totaled $20.7 million, improving $12.7 million from the prior period primarily reflecting a $10.1 million improvement in working capital.

Financing Activities

Financing activities reflect the regular payment of mortgage principal amortization over the periods presented. During the six months ended June 30, 2012, InnVest drew $38.2 million on its operating loan. Given the seasonality of operations, distributions and capital expenditures through the first half of the year are typically partially financed by cash on hand or the use of the operating line.

Financing activities in the prior period reflect net proceeds of $71.8 million from equity and convertible debentures issued in March 2011 (gross proceeds of $75.2 million). Proceeds were partially used to repay the $7.2 million balance previously drawn on the line of credit.

Cash distributions for the six months ended June 30, 2012 totaled $18.7 million (2011 – $20.4 million) which excludes distributions which are included on the consolidated statement of net income as finance charges.

Investing Activities

Each year, InnVest notionally sets aside between 3% and 5% of total hotel revenues at each hotel to replace furniture, fixtures and equipment and to fund capital improvements (the "FF&E Reserve"). Capital expenditures during the six months ended June 30, 2012 totaled $19.5 million (2011 – $21.7 million) compared to the notional FF&E Reserve of $12.1 million (2011 – $12.0 million).

The incremental $7.4 million invested above the notional FF&E Reserve in 2012 reflects number of profit-improving projects designed to increase cash flow and improve profitability including room renovations at the Delta Centre-Ville and brand upgrades at a number of our Holiday Inn and Hilton hotels.

Investing activities also include $9.4 million in net proceeds from the sale of three assets during the second quarter of 2012. Investing activities in the prior period reflect proceeds from vendor-take-back mortgages of $2.7 million relating to the sale of two properties in 2009.

QUARTERLY RESULTS

Seasonality

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue earned from hotel operations fluctuates throughout the year, with the third quarter being the highest due to the increased level of leisure travel in the summer months and the first quarter being the lowest because leisure travel tends to be lower. The results from operations vary materially from quarter to quarter because of the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, depreciation and amortization, and corporate and administrative expenses are fixed or virtually fixed.

Quarter Ended (Unaudited)

	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sep 30 2010
Revenues	**$ 164,258**	$ 131,923	$ 150,361	$ 175,980	$ 161,733	$ 129,034	$ 149,439	$ 174,539
Gross operating profit	**42,386**	17,738	28,999	52,374	42,001	16,633	29,004	52,472
Net income (loss)	**1,963**	(30,197)	(4,324)	66,929	1,965	(20,035)	213,928	(4,432)
FFO	**23,144**	(2,156)	10,101	33,695	24,498	(3,000)	8,607	31,964
Distributable income (loss)	**17,955**	(5,901)	5,547	28,128	19,487	(6,722)	4,142	26,607
Distributions declared	**9,344**	9,344	10,130	11,701	11,694	11,371	11,197	11,138
Per unit – diluted:								
Net income (loss)	**$ 0.021**	$ (0.323)	$ (0.046)	$ 0.581	$ 0.021	$ (0.222)	–	–
FFO	**0.228**	(0.023)	0.108	0.314	0.240	(0.033)	0.096	0.326
Distributable income (loss)	**0.178**	(0.063)	0.059	0.262	0.192	(0.074)	0.046	0.271
Trust units outstanding	**93,538,022**	93,538,022	93,538,022	93,538,022	93,518,392	93,336,231	89,474,691	89,046,308
Weighted average trust units outstanding	**93,538,022**	93,538,022	93,538,022	93,532,175	93,425,837	90,266,593	89,556,904	89,017,278
Total assets	**$ 1,545,851**	$ 1,568,348	$ 1,564,111	$ 1,589,573	$ 1,613,106	$ 1,636,500	$ 1,598,837	$ 1,614,517
Total long-term debt	**806,171**	818,866	804,569	808,303	815,330	821,504	840,930	832,818

LIQUIDITY AND CAPITAL RESOURCES

InnVest has several sources of liquidity including the following:

CASH GENERATED FROM HOTEL OPERATIONS

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

LINE OF CREDIT

At June 30, 2012, InnVest has a line of credit with a major banking institution up to a maximum of $45.0 million. The line of credit is used to finance temporary shortfalls in cash resulting from business seasonality and working capital fluctuations. The credit facility may also be used to provide short-term financing in the event of the acquisition of a new hotel. At June 30, 2012, $38.2 million was drawn on the line of credit (December 31, 2011 – nil).

ISSUING ADDITIONAL DEBT

InnVest also has the ability to raise funds by mortgaging its properties or by issuing either debt or convertible debt securities. InnVest typically uses long-term debt financing to refinance existing debt or to finance an acquisition. The ability to secure debt financing on reasonable terms is ultimately dependent on market conditions and the lender's determination of InnVest's creditworthiness. Year-to-date in 2012, InnVest has refinanced over $315.0 million of mortgage debt with existing lenders. The choice of debt instrument used is dependent on then-current market conditions. At June 30, 2012, substantially all of InnVest's assets have been pledged as security under debt agreements.

ISSUING ADDITIONAL EQUITY SECURITIES

InnVest's listing on The Toronto Stock Exchange gives it the ability to access, subject to market conditions, additional equity through the issuance of additional units or other equity instruments. InnVest issued $25.2 million of equity and $50.0 million of convertible debentures during the first quarter of 2011. Prior to the completion of its 2012 Reorganization on July 3, 2012, InnVest was restricted from issuing stapled securities (Refer to *Reorganization of InnVest's tax structure* on page 4).

Management believes that InnVest's credit facilities, cash on hand and expected cash flow from operations, when combined with the potential to sell assets or access debt and equity markets, will allow InnVest to meet all its financial commitments. If necessary, near term disruptions to operating earnings and cash flow could be addressed through reductions in discretionary capital allocation decisions such as capital investments above the FF&E Reserve and/or distributions.

Cash on Hand

At June 30, 2012, InnVest has cash totaling $24.9 million, of which $6.8 million is restricted to undertake capital refurbishments in accordance with certain mortgage and franchise agreements. The cash balance at June 30, 2012 reflects proceeds received on asset sales during the quarter. Given lending restrictions between the REIT and IOT, the cash was not available to be applied against the line of credit. Following the completion of the 2012 Reorganization, excess cash was used to reduce the line of credit.

Each year, InnVest sets aside a notional FF&E Reserve totaling between 3% and 5% of total hotel revenue. Capital expenditures during the six months ended June 30, 2012 totaled $19.5 million (2011 – $21.7 million) compared to the notional FF&E Reserve of $12.1 million (2011 – $12.0 million). Incremental capital above the notional FF&E Reserve in 2012 was funded with cash on hand or available credit facilities.

The following chart shows the changes in the restricted FF&E Reserve cash balance for the six months ended June 30, 2012, along with the comparable period.

	Six Months Ended June 30, 2012	2011
Opening balance, January 1	**$ 6,031**	$ 3,831
FF&E Reserve	**12,139**	11,951
Transferred from operating cash	**8,140**	10,233
Capital expenditures	**(19,493)**	(21,654)
Closing balance, June 30	**$ 6,817**	$ 4,361

Debt Strategy

InnVest's debt strategy involves the use of three forms of debt: conventional property-specific secured mortgages, unsecured convertible debentures and secured floating rate bank financing. Management's objectives are to access the lowest cost of debt with the most flexible terms and to have a staggered debt maturity schedule to manage interest rate and refinancing risk.

CREDIT FACILITY AND BRIDGE LOAN

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

During the first quarter of 2012, InnVest amended its existing credit agreement to increase the maximum amount available under its line of credit on a seasonal basis. The credit line was increased from $40.0 million to $50.0 million through June 15, 2012 and to $45.0 million through August 31, 2012. Thereafter the line of credit will return to the $40.0 million level. InnVest will use the increased line of credit availability to provide additional liquidity and flexibility to accommodate seasonal working capital needs, to fund capital expenditures and for corporate general purposes. The credit facility, secured by 13 hotels, expires in August 2013.

The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties. Interest rates are based on the lesser of (i) Canadian prime rate plus 2.5% and (ii) the Canadian Bankers' Acceptance rate plus 3.5%. Based on the operating results of the secured properties for the four quarters ended June 30, 2012, InnVest qualifies for $43.9 million of the $45.0 million base availability under the line of credit, inclusive of the $5.0 million temporary increase. At June 30, 2012, $38.2 million was drawn on the credit facility (December 31, 2011 – $nil). Letters of credit totaling $3.6 million (December 31, 2011 – $3.6 million) were also drawn against the facility.

In addition, InnVest has access to a loan facility, granted in conjunction with property mortgages, for up to $25.0 million to fund 65% of capital expenditures incurred at certain of its hotels. No proceeds were drawn against this facility at June 30, 2012. Subsequent to the end of the quarter, InnVest drew $2.7 million on this facility, such amounts being added to the mortgages payable relating to the applicable hotels.

At June 30, 2012, InnVest has a $4.0 million (December 31, 2011 – $4.3 million) bridge loan secured by one hotel which matures March 1, 2013. The bridge loan requires quarterly principal payments of $250 and bears interest at the Canadian Bankers' Acceptance rate plus 3.5%.

MORTGAGES PAYABLE AND CONVERTIBLE DEBENTURES

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

At June 30, 2012, InnVest has mortgages payable of $780.6 million (December 31, 2011 – $804.8 million) with a weighted average term of 3.4 years (December 31, 2011 – 2.2 years) and a weighted average interest rate of 5.7% (December 31, 2011 – 5.6%). Approximately 10.7% of InnVest's mortgage debt is at floating rate.

During the second quarter of 2012, InnVest completed the renewal of a $166.3 million mortgage which was scheduled to expire in November 2012. The mortgage, secured by forty limited-service hotels, has a five-year term at an interest rate of 6.0%. During the first quarter of 2012, InnVest completed the renewal of a $151.9 million mortgage which was scheduled to expire in March 2013. The mortgage, secured by six full-service hotels, has an interest rate of 5.3% and has a three year term with two one-year extensions, at InnVest's option.

For the balance of 2012, InnVest has two remaining mortgage maturities totaling $12.4 million at an average interest rate of 6.8%. InnVest is finalizing the closing of five-year extensions for both maturities at an interest rate of 5.1% and expects to generate incremental proceeds of approximately $2.9 million. Following completion of these refinancings, InnVest will not have any mortgage maturities until April of 2014.

At June 30, 2012, InnVest has approximately $128.1 million of mortgages secured by conduit financing maturing in 2014 and 2015.

At June 30, 2012, InnVest has five series of fixed-rate convertible debentures totaling $306.3 million (December 31, 2011 – $306.3 million). These convertible debentures mature between May 2013 and March 2018.

Based on recent negotiations with lenders and its knowledge and experience refinancing mortgages and accessing the public markets, management expects to address its maturities in the normal course of business. Prior to August 2011, credit spreads were showing signs of contraction. Following concerns raised by the European debt crisis in August 2011, credit spreads had begun to increase but have now stabilized with some signs that they may decrease. Notwithstanding, the underlying bond yields have decreased significantly over the past three years such that the overall cost of debt remains attractive.

Leverage

InnVest is not permitted to exceed certain financial leverage amounts under the terms of its Declaration of Trust. InnVest is permitted to hold indebtedness up to a level of 60% of gross asset value (75% including convertible debentures). The financial ratio will be computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and for greater certainty, deferred income tax liability.

At June 30, 2012, InnVest's leverage excluding and including convertible debentures was 43.9% (December 31, 2011 – 45.6%) and 61.1% (December 31, 2011 – 62.9%), respectively.

	June 30, 2012	
Total assets per consolidated balance sheet	**$ 1,545,851**	
Accumulated depreciation and amortization	**275,313**	
Deferred income tax asset	**(31,545)**	
Deferred income tax liability	**(3,130)**	
Gross asset value	**$ 1,786,489**	
Book value of mortgages and other indebtedness(1)	**$ 784,584**	**43.9%**
Convertible debentures(2)	**306,338**	**17.2%**
Total debt	**$ 1,090,922**	**61.1%**

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

Contractual Obligations Repayment Summary

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

The following table summarizes InnVest's contractual obligations as at June 30, 2012.

	Remaining 2012	2013	2014	2015	2016	2017 and Thereafter	Contractual Cash Flows(1)
Accounts payable and other liabilities	$ 83,996	$ –	$ –	$ –	$ –	$ –	$ 83,996
Mortgage payable – principal(2)	18,928	19,219	304,569	220,883	51,273	162,944	777,816
Mortgage payable – interest(3)	23,027	41,703	29,997	16,975	12,486	3,676	127,864
Operating Line of Credit – principal	5,000	33,169	–	–	–	–	38,169
Operating Line of Credit – interest	822	995	–	–	–	–	1,817
Bridge loan – principal	500	3,500	–	–	–	–	4,000
Bridge loan – interest	88	26	–	–	–	–	114
Convertible debentures – principal	–	74,980	70,000	–	36,358	125,000	306,338
Convertible debentures – interest	9,211	15,799	13,924	9,829	8,602	8,813	66,178
Long-term land leases	2,401	4,826	4,826	4,128	3,896	79,329	99,406
Capital commitments	10,908	–	–	–	–	–	$ 10,908
Total	$ 154,881	$ 194,217	$ 423,316	$ 251,815	$ 112,615	$ 379,762	$ 1,516,606

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.
(2) Principal includes regular amortization and repayments at maturity.
(3) Interest amounts for floating rate debt is based on interest rates prevailing at June 30, 2012.

InnVest has leasehold interests in 12 of its hotels. The leaseholds require minimum annual average lease payments and expire between 2016 and 2088.

DISTRIBUTIONS TO UNITHOLDERS

For the six months ended June 30, 2012, distributions totaling $18.7 million were declared ($0.1998 per unit) as compared to $23.1 million ($0.2502) declared in the prior period. In November 2011, InnVest announced a reduction in distributions paid to unitholders to $0.40 per unit annually ($0.0333 per month), as compared to the prior distribution level of $0.50 per unit annually ($0.0417 per month). The Board of Trustees unanimously approved the reduction of distributions after careful consideration of the environment faced by InnVest and its desire to conserve liquidity to fund profit-improving capital investments throughout the portfolio. The monthly distribution reduction offset incremental distributions incurred following the issuance of 3,600,000 units in March 2011.

In August 2011, InnVest suspended its DRIP given restrictions on the issuance of units following the announcement of new tax rules. InnVest reinstated the DRIP in July 2012 following the completion of the 2012 Reorganization. Refer to *Reorganization of InnVest's tax structure* on page 4.

For the twelve months ended June 30, 2012, InnVest's payout ratio was 88.6% (88.4% on a cash basis excluding the non-cash distributions made through the DRIP). The lower payout ratio as compared to the year ended December 31, 2011 primarily reflects the distribution reduction beginning in November 2011. Based on the current annual distribution level of $0.40 per unit, the payout ratio for the twelve months ended June 30, 2012 would approximate 82%.

	Twelve Months Ended June 30			Years Ended December 31,	
	2012	2011	2010	2009	2008
	As Reported Pursuant to IFRS		As Reported Pursuant to Canadian GAAP		
Distributable income	**$ 45,729**	$ 46,440	$ 41,776	$ 51,524	$ 85,540
Distributions	**40,520**	44,896	44,384	51,297	78,473
Distributable income in excess of (less than) distributions	**5,209**	1,544	(2,608)	227	7,067
Non-cash distributions made through the DRIP	**80**	309	1,688	2,756	13,234
Distributable income in excess of (less than) cash distributions	**$ 5,289**	$ 1,853	$ (920)	$ 2,983	$ 20,301
Payout ratios:					
Total distributions	**88.6%**	96.7%	106.2%	99.6%	91.7%
Cash distributions (excluding DRIP)	**88.4%**	96.0%	102.2%	94.2%	76.3%

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

Distributions to unitholders are approved by InnVest's Board of Trustees. Each month, InnVest may distribute such percentage of its estimated distributable income as the Trustees determine in their discretion. In exercising their discretion to approve the level of distributions, the Trustees use forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to change due to the nature of the Canadian hotel industry which can be difficult to predict, even in the short-run. Refer to *Risks and Uncertainties* on page 18.

UNIT INFORMATION

At June 30, 2012, each issued and outstanding InnVest Unit traded together with a non-voting IOT Unit on a "stapled" basis on the TSX. The REIT, through a subsidiary, held all of the voting units of IOT. On July 3, 2012, InnVest completed the 2012 Reorganization to unwind the stapled unit structure. Refer to *Reorganization of InnVest's tax structure* on page 4 for a description of the 2012 Reorganization.

At August 8, 2012, a total of 93,546,156 InnVest Units were outstanding. During the six months ended June 30, 2012 and 2011, InnVest issued units as follows:

	2012	2011
Units outstanding, January 1	**93,538,022**	89,474,691
Units issued	–	3,600,000
Conversion of debentures	–	371,221
Dividend reinvestment plan	–	33,660
Executive compensation plan	–	27,740
Trustee compensation plan	–	11,080
Units outstanding, June 30	**93,538,022**	93,518,392

Units Issued

On March 8, 2011, InnVest issued 3,600,000 units, at a price of $7.00 per unit or $25.2 million. Proceeds, net of issuance costs, totaled $23.9 million.

Units Issuable on Conversion of Convertible Debentures

The following table summarizes the number of units issuable based on the convertible debentures outstanding as at June 30, 2012.

Convertible Debentures	Maturity Date	Conversion Strike Price	Balance Outstanding	Units to be Issued Upon Conversion
Series B – 6.00%	May 31, 2013	$14.90	$74,980	5,032,214
Series C – 5.85%	August 1, 2014	$14.70	$70,000	4,761,904
Series D – 6.75%	March 31, 2016	$5.70	$36,358	6,378,596
Series E – 6.00%	September 30, 2017	$8.00	$75,000	9,375,000
Series F – 5.75%	March 30, 2018	$9.45	$50,000	5,291,005

On March 15, 2011, InnVest closed a bought deal of $50.0 million, 5.75% convertible unsecured subordinated debentures ("Series F – 5.75% Debentures") due March 30, 2018.

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

Dividend Reinvestment Plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from InnVest automatically reinvested in additional units of InnVest. On August 12, 2011 InnVest suspended its DRIP pending completion of the 2012 Reorganization (refer to *Reorganization of InnVest's tax* structure on page 4). InnVest reinstated its DRIP effective July 3, 2012.

Normal Course Issuer Bid

Commencing on November 15, 2011, InnVest initiated normal course issuer bids ("NCIBs") to repurchase units as well as each of its series of convertible debentures. Units and convertible debentures purchased will be cancelled. At June 30, 2012, no purchases have been made under the NCIBs. The NCIBs expire on November 14, 2012.

Executive and Trustee Compensation Programs

InnVest's executive compensation program provides for the grant of restricted units to certain senior employees of the REIT. Units granted vest equally on the third and fourth anniversary of the effective date of grant. At June 30, 2012, there were 80,754 unvested executive units granted under the plan (December 31, 2011 – 116,814). In addition, 50% of InnVest Trustees' annual retainer compensation is typically payable in units (based on the then-current market price).

Prior to the 2012 Reorganization, InnVest was restricted from issuing stapled securities, subject to certain exceptions (refer to *Reorganization of InnVest's tax structure* on page 4). As a consequence, InnVest had suspended the issuance from treasury of units in payment of vested executive units and of the Trustees' annual compensation. Effective July 3, 2012, InnVest has resumed the issuance of units to satisfy executive and trustee compensation.

In January 2012, 36,882 units vested under the executive compensation plan which were satisfied in cash.

NON-IFRS FINANCIAL MEASURES AND ADDITIONAL IFRS MEASURES

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

Additional IFRS Measures

GROSS OPERATING PROFIT ("GOP")

GOP is defined as revenues less hotel, other real estate properties and franchise expense. GOP reflects results of operations from InnVest's various business segments: hotel ownership, franchise business and other real estate assets. For the six months ended June 30, 2012, InnVest's hotel ownership operations accounted for 97% of its total GOP (2011 – 97%).

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

GOP has been calculated as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues	**$ 164,258**	$ 161,733	**$ 296,181**	$ 290,767
Hotel, other real estate properties and franchise expenses	**121,872**	119,732	**236,057**	232,133
Gross operating profit	**$ 42,386**	$ 42,001	**$ 60,124**	$ 58,634

Non-IFRS Measures

FUNDS FROM OPERATIONS ("FFO")

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

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

InnVest presents FFO in accordance with Real Property Association of Canada's ("REALpac") White Paper on Funds From Operations issued in June 2010 except that InnVest excludes unusual items which are not in the normal course of business and are not expected to reoccur. InnVest's method of calculating FFO may be different from that of other organizations.

InnVest calculates FFO by using net income and adjusting for:

i) Depreciation, amortization and accretion, excluding amortization of deferred financing costs;
ii) Deferred income tax expense or recovery;
iii) Non-cash writedown of assets held for sale as well as the impairment provision on hotel properties;
iv) Non-cash effect of certain equity-based financial instruments classified as financial liabilities under IFRS (includes distributions treated as interest expense and changes to fair value each reporting period); and
v) Non-recurring costs that may impact cash flow.

A reconciliation of IFRS net income (loss) to FFO is as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income (loss)	**$ 1,963**	$ 1,965	**$ (28,234)**	$ (18,070)
Add/(deduct):				
Depreciation and amortization	**23,824**	24,936	**47,793**	48,466
Deferred income tax expense (recovery)	**673**	1,693	**(9,661)**	(9,001)
Unrealized (gain) loss on liabilities presented at fair value	**(2,327)**	(4,717)	**11,823**	(2,243)
Finance costs – distributions	**37**	621	**73**	2,346
Gain on sale of assets	**(1,320)**	–	**(1,320)**	–
Reversal of previous impairment	**(801)**	–	**(801)**	–
Writedown of hotel property	**687**	–	**687**	–
SIFT transition expenses	**408**	–	**628**	–
FFO	**$ 23,144**	$ 24,498	**$ 20,988**	$ 21,498
FFO per unit:				
Basic	**$ 0.247**	$ 0.262	**$ 0.224**	$ 0.234
Diluted	**$ 0.228**	$ 0.240	**$ 0.224**	$ 0.233
Weighted average units outstanding:				
Basic	**93,538,022**	93,425,837	**93,538,022**	91,854,942
Diluted	**114,582,624**	114,553,248	**93,900,891**	92,217,811

DISTRIBUTABLE INCOME

Distributable income is commonly used in the real estate investment trust industry to measure performance. Distributable income is intended to approximate cash earnings. It is defined in InnVest's Declaration of Trust to mean net income (loss) of InnVest and its consolidated subsidiaries as reported in its consolidated financial statements adjusted for:

i) Depreciation, amortization and accretion and future income tax (recovery) expense;
ii) Any gains or losses on the disposition of any real property;
iii) The reserve for replacement of furniture, fixtures and equipment and capital improvements; and
iv) Any other adjustment determined by the Board of Trustees in their discretion.

A reconciliation of IFRS net income (loss) to distributable income is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Net income (loss)	**$ 1,963**	$ 1,965	**$ (28,234)**	$ (18,070)
Add/(deduct):				
Depreciation and amortization	**23,824**	24,936	**47,793**	48,466
Deferred income tax expense (recovery)	**673**	1,693	**(9,661)**	(9,001)
Unrealized (gain) loss on liabilities presented at fair value	**(2,327)**	(4,717)	**11,823**	(2,243)
Finance costs – distributions	**37**	621	**73**	2,346
Gain on sale of assets	**(1,320)**	–	**(1,320)**	–
Reversal of previous impairment	**(801)**	–	**(801)**	–
Writedown of hotel property	**687**	–	**687**	–
SIFT transition expenses	**408**	–	**628**	–
Non-cash portion of convertible debenture interest and accretion	**1,019**	980	**2,011**	1,876
Non-cash portion of mortgage interest expense	**510**	681	**1,194**	1,342
FF&E Reserve	**(6,718)**	(6,672)	**(12,139)**	(11,951)
Distributable income	**$ 17,955**	$ 19,487	**$ 12,054**	$ 12,765
Distributable income per unit:				
Basic	**$ 0.192**	$ 0.209	**$ 0.129**	$ 0.139
Diluted	**$ 0.178**	$ 0.192	**$ 0.128**	$ 0.138
Weighted average units outstanding:				
Basic	**93,538,022**	93,425,837	**93,538,022**	91,854,942
Diluted	**114,582,624**	114,553,248	**93,900,891**	92,217,811

Distributable income is one measure used by industry analysts in the determination of InnVest's per unit value, its ability to fund distributions and investment returns for current or potential investors. Distributable income is also used by management and the Board of Trustees to determine the level of distributions to unitholders and also serves as an important measure for investors in their evaluation of the performance of management.

In addition, when evaluating acquisition opportunities, the distributable income to be generated by the asset is reviewed by management to determine whether a proposed acquisition will generate an increase in distributable income per unit. Therefore, distributable income is an important measure for management as a guideline through which operating and financial decisions are made and is an integral part of the investment decision for investors and potential investors.

The following table reconciles cash flows from operating activities to distributable income in accordance with Canadian Securities Administrators Staff Notice 41-201 *Income Trusts and Other Indirect Offerings*. Management considers distributable cash to be equivalent to distributable income. The reconciliation has been prepared using reasonable and supportable assumptions which reflect InnVest's planned courses of action given management's judgment about the most probable set of economic conditions.

The reconciliation of cash flow from operating activities to distributable income is as follows:

	Six Months Ended June 30,	
	2012	2011
Cash flow generated by operating activities	**$ 20,695**	$ 7,972
Changes in non-cash working capital	**5,020**	15,126
Other	**(1,522)**	1,618
FF&E Reserve	**(12,139)**	(11,951)
Distributable income	**$ 12,054**	$ 12,765

RELATED PARTY TRANSACTIONS

On July 26, 2002, InnVest entered into a management agreement for hotel management and accounting services and an administrative services agreement (the "Agreements") with Westmont. Westmont is controlled by a minority unitholder of InnVest. The current term of the Agreements expires June 25, 2017 and includes an additional renewal term for a five-year extension, subject to the consent of Westmont and approval by InnVest. The Agreements are subject to non-compete arrangements for limited-service hotels in Canada. The Agreements provide for the payment of an annual management fee to Westmont equal to 3.375% of gross hotel revenue during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if InnVest achieves distributable income in excess of $1.25 per unit. To date, no management incentive fees have been paid under the Agreements.

In addition to the base management fee and incentive fee, Westmont is entitled to reasonable fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting services, reasonable out-of-pocket costs and expenses, other than general and administrative expenses or overhead costs except as otherwise provided in the Agreements, and project management and general contractor service fees related to hotel renovations managed by Westmont. Also, for certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel or a fixed percentage of Hotel GOP, subject to an annual minimum fee.

Total management and other fees paid to Westmont for the six months ended June 30, 2012 were $8.7 million (2011 – $8.3 million). These fees represent approximately 65% (2011 – 66%) of total hotel management and other fees paid by InnVest to the four hotel management companies with which it partners over the periods presented.

RISKS AND UNCERTAINTIES

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

There have been no changes to InnVest's assessment of its risk factors since December 31, 2011. For a discussion of risk factors that have been identified, readers should refer to InnVest's 2011 Annual Report and InnVest's latest Annual Information Form, both of which are available on SEDAR.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The significant accounting policies used in the preparation of the Interim Financial Statements for the three and six months ended June 30, 2012 are consistent with those reported in the audited consolidated financial statements for the year ended December 31, 2011.

InnVest's MD&A for the year ended December 31, 2011 contains a discussion of InnVest's significant accounting policies most affected by estimates and judgment used in the preparation of its financial statements, being its accounting policies relating to the valuation of its hotel properties in assessing impairment, the fair value of other financial assets and liabilities, the componentization and expected useful life of hotel properties, and the valuation of defined benefit pension plans. Management has determined that at June 30, 2012, there is no change to its assessment of its significant accounting policies most affected by estimates and judgments as detailed in the MD&A for the year ended December 31, 2011.

FUTURE ACCOUNTING CHANGES

InnVest has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on its consolidated financial statements and note disclosures. These standards and interpretations are effective from January 1, 2013, except for IAS 1 which is applicable to periods starting on and after July 1, 2012, and IFRS 9 for which the effective date is January 1, 2015. Early adoption is permitted in each case, subject to certain conditions. InnVest is currently assessing the impact of these standards and interpretations on its financial statements.

IFRS 9, Financial Instruments

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

IFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value. Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. A fair value option is provided for financial instruments otherwise measured at amortized cost.

This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 10, Consolidated Financial Statements
IFRS 10 replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements*, and SIC-12 *Consolidation – Special Purpose Entities*. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and 28 are adopted at the same time.

IFRS 11, Joint Arrangements
IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturer*. Earlier application is permitted, provided IFRS 10, IFRS 12 and the amendments to IAS 27 and 28 are adopted at the same time.

IFRS 12, Disclosure of Interests in Other Entities
IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13, Fair Value Measurement
IFRS 13 is a new standard that defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).

IAS 27, Separate Financial Statements
IAS 27 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements as the consolidation guidance will now be included in IFRS 10.

IAS 28, Investments in Associates and Joint Ventures
IAS 28 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.

Amendments to IAS 1 on Presentation of Items of Other Comprehensive Income
The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments.

Amendments to IAS 19 – Employee Benefits
The amendments require the recognition of changes in the defined benefit obligation and in plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs.

Amendments to IFRS 7 – Financial Instruments: Disclosures
The amendments require disclosure about all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation including information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

CONTROLS AND PROCEDURES

Management of InnVest is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. In accordance with National Instrument 52-109 – C*ertification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer and the Chief Financial Officer have assessed, or caused an assessment to be made under their direct supervision, of the design and operating effectiveness of InnVest's internal controls over financial reporting as at June 30, 2012, and based on that assessment have concluded that InnVest's internal controls over financial reporting were appropriately designed and were operating effectively.

During the three month interim period ended June 30, 2012 there were no changes in InnVest's internal controls over financial reporting which have significantly affected, or are reasonably likely to significantly affect, InnVest's internal controls over financial reporting.

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

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

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) (unaudited)	June 30, 2012	December 31, 2011
Assets		
Current assets		
Cash	$ 18,058	$ 7,639
Accounts receivable	33,316	31,744
Prepaid expenses and other assets	15,667	8,801
Assets held for sale (Note 3)	4,601	–
	71,642	48,184
Non-current assets		
Restricted cash (Note 4)	6,817	6,031
Hotel properties (Note 5)	1,402,297	1,453,718
Other real estate properties (Note 6)	18,858	18,742
Intangible assets (Note 7)	14,692	15,426
Deferred income tax asset (Note 14)	31,545	22,010
Total assets	$ 1,545,851	$ 1,564,111
Liabilities		
Current liabilities		
Bank indebtedness (Note 8)	$ 4,000	$ –
Accounts payable and accrued liabilities	83,996	78,083
Distributions payable	3,115	3,115
Long-term debt (Note 9)	33,408	204,963
Convertible debentures (Note 10)	73,935	–
Other long-term obligations (Note 12)	147	147
Liabilities related to assets held for sale (Note 3)	2,917	–
	201,518	286,308
Non-current liabilities		
Long-term debt (Note 9)	772,763	599,606
Convertible debentures (Note 10)	216,943	288,867
Provisions (Note 11)	12,199	11,662
Other long-term obligations (Note 12)	5,992	5,873
Deferred income tax liability (Note 14)	3,130	3,255
	1,212,545	1,195,571
Unitholders and other liabilities (Note 16)	50,807	39,118
Unitholders' equity	282,499	329,422
	$ 1,545,851	$ 1,564,111

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

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

(in thousands of Canadian dollars, except per unit amounts) (unaudited)	**Three Months Ended June 30, 2012**	Three Months Ended June 30, 2011	**Six Months Ended June 30, 2012**	Six Months Ended June 30, 2011
Revenues (Note 24)	**$ 164,258**	$ 161,733	**$ 296,181**	$ 290,767
Hotel, Other real estate properties and Franchise expenses				
Operating expenses (Note 20)	**100,407**	98,454	**194,862**	191,426
Property taxes, rent and insurance	**12,900**	13,430	**26,062**	26,789
Management fees (Note 20)	**6,341**	5,881	**11,395**	10,637
Franchise expenses	**2,224**	1,967	**3,738**	3,281
	121,872	119,732	**236,057**	232,133
Gross operating profit	**42,386**	42,001	**60,124**	58,634
Other expenses				
Corporate and administrative (Note 20)	**1,530**	1,323	**3,223**	2,689
Interest expense				
Mortgages and other debt	**12,518**	12,915	**25,364**	26,321
Convertible debentures	**5,625**	5,593	**11,211**	10,481
Other income, net (Note 21)	**(1,457)**	(2,328)	**(1,468)**	(2,355)
Depreciation and amortization	**23,824**	24,936	**47,793**	48,466
Finance costs – distributions (Note 22)	**37**	621	**73**	2,346
Unrealized (gain) loss on liabilities presented at fair value (Note 23)	**(2,327)**	(4,717)	**11,823**	(2,243)
Income (loss) before income tax expense (recovery)	**2,636**	3,658	**(37,895)**	(27,071)
Income tax (expense) recovery (Note 14)	**(673)**	(1,693)	**9,661**	9,001
Net income (loss) and comprehensive income (loss)	**$ 1,963**	$ 1,965	**$ (28,234)**	$ (18,070)
Net income (loss) per unit (Note 18)				
Basic and diluted	**$ 0.021**	$ 0.021	**$ (0.302)**	$ (0.197)

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

(in thousands of Canadian dollars) (unaudited)	Deficit	Units in $	Total
Balance December 31, 2010	$ (268,811)	$ 573,558	$ 304,747
Changes during the period			
Net loss and comprehensive loss	(18,070)	–	(18,070)
Distributions to unitholders	(20,809)	–	(20,809)
Issue of new units, net	–	20,405	20,405
Conversion of debentures	–	1,803	1,803
Distribution reinvestment plan units issued	–	195	195
Vested executive compensation	–	186	186
Trustee compensation	–	76	76
Balance June 30, 2011	$ (307,690)	$ 596,223	$ 288,533
Balance December 31, 2011	**$ (266,917)**	**$ 596,339**	**$ 329,422**
Changes during the period			
Net loss and comprehensive loss	**(28,234)**	**–**	**(28,234)**
Distributions to unitholders	**(18,689)**	**–**	**(18,689)**
Balance June 30, 2012	**$ (313,840)**	**$ 596,339**	**$ 282,499**

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) (unaudited)	**Six Months Ended June 30, 2012**	Six Months Ended June 30, 2011
Operating activities		
Net loss	**$ (28,234)**	$ (18,070)
Add (deduct) items not affecting operations		
Depreciation and amortization	**47,793**	48,466
Writedown of hotel property	**687**	–
Unrealized loss (gain) on liabilities presented at fair value (Note 23)	**11,823**	(2,243)
Interest on mortgages and other debt	**25,364**	26,321
Convertible debentures interest and accretion	**11,211**	10,481
Interest expense paid	**(33,268)**	(33,118)
Deferred income tax recovery	**(9,661)**	(9,001)
Non-cash executive and trustee compensation	**–**	262
Changes in non-cash working capital (Note 19)	**(5,020)**	(15,126)
Cash generated from operations	**20,695**	7,972
Financing activities		
Repayment of long-term debt	**(18,756)**	(13,743)
Issue of convertible debentures, net of issuance costs	**–**	47,875
Issue of new stapled units, net of issuance costs	**–**	23,942
Unit distributions	**(18,689)**	(20,411)
Increase in (repayment of) operating loan	**38,169**	(7,200)
Repayment of bridge loan	**(250)**	(1,250)
Cash generated from financing activities	**474**	29,213
Investing activities		
Capital expenditures on hotel properties	**(19,493)**	(21,654)
Change in intangible assets	**(159)**	(67)
Proceeds from mortgage receivable	**241**	2,700
Proceeds from sale of hotel properties, net of costs	**9,447**	–
Increase in restricted cash	**(786)**	(530)
Cash utilized in investing activities	**(10,750)**	(19,551)
Increase in cash during the period	**10,419**	17,634
Cash, beginning of the period	**7,639**	9,001
Cash, end of the period	**$ 18,058**	$ 26,635

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

Notes to Condensed Consolidated Financial Statements

June 30, 2012 (all Canadian dollar amounts are in thousands, except unit and per unit amounts) (unaudited)

1. BASIS OF PRESENTATION

InnVest Real Estate Investment Trust (the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. As at June 30, 2012, the REIT owned 140 Canadian hotels operated under international brands.

Effective December 31, 2010, the REIT leased its hotels to InnVest Operations Trust ("IOT"), an unincorporated open-ended taxable investment trust. IOT directly and indirectly holds all of the hotel operating assets, earns revenues from hotel customers and pays rent to the REIT. IOT also indirectly holds a 50% interest in Choice Hotels Canada Inc. ("CHC"). The REIT and IOT are collectively referred to as "InnVest". At June 30, 2012, each issued and outstanding unit of the REIT traded together with a non-voting unit of IOT as a stapled unit ("InnVest Unit") on the Toronto Stock Exchange (the "TSX") under the symbol INN.UN. All non-voting units of IOT were owned by the unitholders of the REIT. The REIT owned all of the voting units of IOT, representing 1.5% of total units of IOT. Refer to Note 14 for a discussion of the corporate reorganization of InnVest which was completed on July 3, 2012.

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

InnVest's registered office is at 5090 Explorer Drive, Suite 700, Mississauga, Ontario L4W 4T9.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Financial Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2011.

These financial statements should be read in conjunction with InnVest's consolidated financial statements for the year ended December 31, 2011.

b) Estimates

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies. The critical accounting estimates and judgments have been set out in Note 2 of InnVest's consolidated financial statements for the year ended December 31, 2011.

c) Assets Held for Sale

Assets held for sale are presented in current assets at the lower of their carrying amount and fair value less the costs to sell. In order to meet the criteria to be classified as held for sale, the sale must be highly probable and the asset is available for immediate sale in its present condition. A sale is defined as highly probable if it is expected to sell within a year and is approved by the Board of Trustees. The liabilities related to these assets are reclassified to current liabilities once the assets are classified as held for sale.

3. ASSETS HELD FOR SALE

Assets held for sale at June 30, 2012 include two Ontario hotels. All assets and liabilities relating to these assets have been reclassified to current assets and current liabilities on the condensed consolidated balance sheet at June 30, 2012 and are outlined in the table below. Assets held for sale are measured at the lower of their carrying amount and fair value less the estimated costs to sell. The sales of these properties, which have been approved by the Board of Trustees, are expected to close by the end of 2012. The operations of these hotels are not presented as discontinued operations on the condensed consolidated statement of net income (loss) and comprehensive income (loss) as they do not represent a separate geographical area of operations. The land amount included in hotel properties, in the table below, is $721 at June 30, 2012.

	June 30, 2012
Assets	
Accounts receivable	$ 71
Prepaid expenses and other assets	18
Hotel properties	4,512
Total assets	4,601
Liabilities	
Accounts payable and other liabilities	149
Long-term debt (Note 9)	2,768
Total liabilities	$ 2,917

During the second quarter of 2012, InnVest sold three of the assets held for sale at March 31, 2012 for net proceeds after closing costs, of $18,500. InnVest repaid $9,053 of mortgages relating to these assets resulting in net cash proceeds of $9,447. InnVest recorded a gain on sale of $1,320 and the reversal of a previous impairment of $801 relating to these sales during the six months ended June 30, 2012 which are included in 'other income, net' in the condensed consolidated statements of net income (loss) and comprehensive income (loss) (see Note 21).

4. RESTRICTED CASH

The restricted cash of $6,817 (December 31, 2011 – $6,031) is being held by InnVest to undertake capital refurbishments in accordance with certain mortgage and franchise agreements.

5. HOTEL PROPERTIES

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost (including deemed cost)					
Opening balance January 1, 2012	$ 987,840	$ 302,221	$ 238,087	$ 146,446	$ 1,674,594
Sale of hotel	(3,130)	–	–	–	(3,130)
Derecognition of assets	–	–	–	(7,397)	(7,397)
Additions	1,806	8,132	2,853	6,334	19,125
Fair value of decommissioning and restoration provision	611	–	–	–	611
Writedown of an asset to recoverable amount (Note 21)	(687)	–	–	–	(687)
Reclass to assets held for sale (Note 3)	(13,575)	(5,095)	(4,359)	(1,720)	(24,749)
Balance at June 30, 2012	972,865	305,258	236,581	143,663	1,658,367
Accumulated depreciation and amortization					
Opening balance at January 1, 2012	40,552	81,189	15,314	83,821	220,876
Sale of hotel	(197)	–	–	–	(197)
Derecognition of assets	–	–	–	(7,397)	(7,397)
Depreciation and amortization	10,249	21,024	3,916	11,454	46,643
Reclass to assets held for sale (Note 3)	(634)	(1,653)	(312)	(1,256)	(3,855)
Balance at June 30, 2012	49,970	100,560	18,918	86,622	256,070
Carrying value, June 30, 2012	**$ 922,895**	**$ 204,698**	**$ 217,663**	**$ 57,041**	**$ 1,402,297**

	Land, Building and Leaseholds	Building Finishes	Electrical and Mechanical	Furniture, Fixtures and Equipment	Total
Cost (Including deemed cost)					
Opening balance January 1, 2011	$ 978,286	$ 286,491	$ 231,443	$ 146,239	$ 1,642,459
Derecognition of assets	–	–	–	(15,368)	(15,368)
Additions	14,921	15,730	6,644	15,575	52,870
Fair value of decommissioning and restoration provision	3,344	–	–	–	3,344
Writedown of assets to recoverable amount	(8,711)	–	–	–	(8,711)
Balance at December 31, 2011	987,840	302,221	238,087	146,446	1,674,594
Accumulated depreciation and amortization					
Opening balance January 1, 2011	20,616	39,443	7,532	76,383	143,974
Derecognition of assets	–	–	–	(15,368)	(15,368)
Depreciation and amortization	19,936	41,746	7,782	22,806	92,270
Balance at December 31, 2011	40,552	81,189	15,314	83,821	220,876
Carrying value, December 31, 2011	$ 947,288	$ 221,032	$ 222,773	$ 62,625	$ 1,453,718

The land amount included in land, building and leaseholds is $167,696 at June 30, 2012 (December 31, 2011 – $171,364). This amount is not depreciated. Hotel properties at June 30, 2012 include $9,517 relating to leased assets (December 31, 2011 – $9,277).

Impairment Losses Recognized During the Period

Each reporting period, InnVest carries out a review of the recoverable amount of its hotel properties having regard to their long-term holding expectation. This review led to the recognition of an impairment loss of $687 relating to one Ontario hotel which was reclassified to assets held for sale subsequent to June 30, 2012. The impairment loss has been included in 'Other income, net' in the condensed consolidated statements of net income (loss) income (loss) and comprehensive income (loss) (see Note 21).

6. OTHER REAL ESTATE PROPERTIES

Other real estate properties include office and retail properties and a retirement residence. The land amount included in land and building is $1,624 at June 30, 2012 and December 31, 2011. This amount is not depreciated.

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost (including deemed cost)			
Opening balance January 1, 2012	$ 19,417	$ 68	$ 19,485
Additions	363	6	369
Balance at June 30, 2012	19,780	74	19,854
Accumulated depreciation and amortization			
Opening balance at January 1, 2012	727	16	743
Depreciation and amortization	248	5	253
Balance at June 30, 2012	975	21	996
Carrying value, June 30, 2012	**$ 18,805**	**$ 53**	**$ 18,858**

	Land and Building	Furniture, Fixtures and Equipment	Total
Cost (including deemed cost)			
Opening balance January 1, 2011	$ 16,066	$ 100	$ 16,166
Derecognition of assets	–	(56)	(56)
Additions	3,351	24	3,375
Balance at December 31, 2011	19,417	68	19,485
Accumulated depreciation and amortization			
Opening balance January 1, 2011	438	62	500
Derecognition of assets	–	(56)	(56)
Depreciation and amortization	289	10	299
Balance at December 31, 2011	727	16	743
Carrying value, December 31, 2011	$ 18,690	$ 52	$ 18,742

7. INTANGIBLE ASSETS

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance January 1, 2012	$ 26,320	$ 2,605	$ 28,925
Additions	–	159	159
Balance at June 30, 2012	26,320	2,764	29,084
Accumulated depreciation and amortization			
Opening balance at January 1, 2012	12,415	1,084	13,499
Depreciation and amortization	658	235	893
Balance at June 30, 2012	13,073	1,319	14,392
Carrying value, June 30, 2012	**$ 13,247**	**$ 1,445**	**$ 14,692**

	Licence Contracts	Franchise Rights	Total
Cost			
Opening balance January 1, 2011	$ 26,320	$ 3,853	$ 30,173
Derecognition of assets	–	(1,439)	(1,439)
Additions	–	191	191
Balance at December 31, 2011	26,320	2,605	28,925
Accumulated depreciation and amortization			
Opening balance January 1, 2011	11,099	1,545	12,644
Derecognition of assets	–	(1,439)	(1,439)
Depreciation and amortization	1,316	978	2,294
Balance at December 31, 2011	12,415	1,084	13,499
Carrying value, December 31, 2011	$ 13,905	$ 1,521	$ 15,426

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

8. BANK INDEBTEDNESS

As at June 30, 2012, the bridge loan amount was $4,000 (December 31, 2011 – $4,250 classified as long-term debt). During the six months ended June 30, 2012, InnVest extended the bridge loan to March 1, 2013. The bridge loan requires quarterly principal payments of $250 starting June 30, 2012 and bears interest at the Canadian Bankers' Acceptance rate plus 3.5%.

9. LONG-TERM DEBT

	June 30, 2012	December 31, 2011
Mortgages payable	**$ 780,584**	$ 804,832
Operating line	**38,169**	–
Bank indebtedness	**–**	4,250
	818,753	809,082
Reclass to liabilites related to assets held for sale (Note 3)	**(2,768)**	–
	815,985	809,082
Less debt issuance costs	**(9,814)**	(4,513)
Total Long-term debt	**806,171**	804,569
Less current portion	**(33,408)**	(204,963)
Net long-term debt	**$ 772,763**	$ 599,606

Substantially all of InnVest's assets have been pledged as security under debt agreements. At June 30, 2012, long-term debt had a weighted average interest rate of 5.6% (December 31, 2011 – 5.6%) and a weighted average effective interest rate of 5.8% (December 31, 2011 – 6.0%). The long-term debt is repayable in average monthly payments of principal and interest totalling $5,559 and matures at various dates from September 30, 2012 to March 21, 2018.

On May 14, 2012, InnVest refinanced $166,345 of debt which was due in November 2012. The new debt has an interest rate of 6.0% and has a five year term. On March 30, 2012, InnVest refinanced $151,937 of debt with the same lender, which was due in March 2013. The new debt has an interest rate of 5.3% and has a three year term with two one-year extension options.

During the first quarter of 2012, InnVest amended its existing operating line agreement to increase the maximum amount available from $40,000 to $50,000 through June 15, 2012 and to $45,000 through August 31, 2012. After August 31, 2012, the line of credit will return to $40,000. The operating line bears interest at either, the Canadian bank prime rate plus 2.5% or the Canadian Bankers' Acceptance rate plus 3.5%. It is secured by 13 properties and is due August 31, 2013. The amount drawn on the operating line as at June 30, 2012 was $38,169 (December 31, 2011 – $ nil).

The amount of the operating line is subject to a mortgageability test which is based on the operating results of the secured properties, calculated quarterly on a trailing four quarters basis. Based on the operating results of the secured properties for the four quarters ended June 30, 2012, InnVest qualifies for $43,903 of the maximum amount of $45,000, inclusive of the temporary $5,000 increase.

In addition, InnVest has access to a loan facility, granted in conjunction with property mortgages, for up to $25,000 to fund 65% of capital expenditures incurred at certain of its hotels. No proceeds were drawn against this facility at June 30, 2012.

Scheduled repayment of long-term debt is as follows:

	Regular Amortization	Due on Maturity	Total
Remainder of 2012	$ 9,334	$ 14,594	$ 23,928
2013	19,220	33,168	52,388
2014	14,628	289,942	304,570
2015	8,139	212,743	220,882
2016	5,778	45,495	51,273
2017 and thereafter	2,498	160,446	162,944
	$ 59,597	**$ 756,388**	**$ 815,985**

The current portion of long-term debt on the balance sheet is based on the twelve months ending June 30, 2013, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of InnVest's mortgages payable at June 30, 2012 was approximately $827,919 (December 31, 2011 – $826,409). This estimate was determined by discounting expected cash flows at interest rates that reflect current market conditions for debt with similar terms, maturities and credit risk.

Long-term debt includes $120,727 (December 31, 2011 – $82,617) which is subject to floating interest rates. Annual interest expense will increase by $1,207 for every 1% increase in the base Bankers' Acceptance rate.

Interest expense on mortgages and other debt, interest on operating and bridge loans and convertible debentures interest are considered operating items in the statements of cash flows.

10. CONVERTIBLE DEBENTURES

The details of the convertible debentures outstanding as at the periods presented are outlined in the tables below:

Debenture	Original Face Amount	Maturity Date	Interest Rate	Effective Interest Rate	Conversion Strike Price	**Outstanding Principal June 30, 2012**	Outstanding Principal December 31, 2011
Series B	$ 75,000	May 31, 2013	6.00%	7.53%	$ 14.90	**$ 74,980**	$ 74,980
Series C	70,000	August 1, 2014	5.85%	7.42%	$ 14.70	**70,000**	70,000
Series D	50,000	March 31,2016	6.75%	9.41%	$ 5.70	**36,358**	36,358
Series E	75,000	September 30, 2017	6.00%	7.75%	$ 8.00	**75,000**	75,000
Series F	50,000	March 30, 2018	5.75%	7.40%	$ 9.45	**50,000**	50,000
Total Convertible debentures						**$ 306,338**	$ 306,338
Less current portion						**(74,980)**	–
Convertible debentures						**$ 231,358**	$ 306,338

The net proceeds received from the issuance of each convertible debenture have been split between a financial liability element and the conversion option component, representing the value attributable to the option to convert the financial liability into equity of InnVest. InnVest has separated the conversion option component for each of its series of convertible debentures and measures such component at fair value at each reporting date.

	June 30, 2012	December 31, 2011
Convertible debentures	**$ 306,338**	$ 306,338
Less financing costs and accretion	**(248)**	(2,259)
Less allocation of conversion feature value	**(15,212)**	(15,212)
	$ 290,878	$ 288,867
Less current portion	**(73,935)**	–
	$ 216,943	$ 288,867

The conversion feature of the convertible debentures is recorded as a liability under Unitholders' liabilities and measured at fair value (see Note 16).

The fair value of InnVest's convertible debentures, estimated based on the market price for each series of convertible debentures as at June 30, 2012, is $304,606 (December 31, 2011 – $289,940).

The scheduled convertible debentures maturities are as follows:

	Due on Maturity
Remainder of 2012	**$ –**
2013	**74,980**
2014	**70,000**
2015	**–**
2016	**36,358**
2017 and thereafter	**125,000**
	$ 306,338
Financing costs and allocation of conversion feature value	**(15,460)**
	$ 290,878

The current portion of convertible debentures on the balance sheet is based on the twelve months ending June 30, 2013, whereas the repayment schedule above reflects the fiscal year.

11. PROVISIONS

	Decommissioning and Restoration Obligations
Opening balance January 1, 2012	**$ 11,662**
Change related to asset sold	**(74)**
Effect of changes in the discount rate credited to hotel properties	**611**
Balance at June 30, 2012	**$ 12,199**

	Decommissioning and Restoration Obligations	Legal Obligations	Total
Opening balance January 1, 2011	$ 8,201	$ 1,600	$ 9,801
Settlements	–	(1,485)	(1,485)
Unused amount reversed	–	(115)	(115)
Effect of changes in the discount rate charged to hotel properties	3,461	–	3,461
Balance at December 31, 2011	$ 11,662	$ –	$ 11,662

Decommissioning and Restoration Obligations

The provision for decommissioning and restoration relates to the estimated future cost of environmental obligations for certain properties. InnVest intends to settle the obligations at the end of the expected useful life of the hotel properties. For the six months ended June 30, 2012, the liability has been discounted at a rate of 2.3% (December 31, 2011 – 2.5%). Upon the initial recognition of the liability, the decommissioning and restoration obligation was capitalized in buildings and is being amortized over the remaining useful life. Additional provisions and effects of the change of the discount rate are capitalized in buildings and being amortized over the remaining useful life.

12. OTHER LONG-TERM OBLIGATIONS

	June 30, 2012	December 31, 2011
Finance lease	$ 1,291	$ 1,291
Other lease obligations	278	276
Employee retiring allowance	2,370	2,370
Retirement benefit plans	2,200	2,083
Total other long-term obligations	$ 6,139	$ 6,020
Less current portion	(147)	(147)
	$ 5,992	$ 5,873

InnVest has one finance lease relating to one hotel in Ontario with a lease term through 2023. InnVest has the option to purchase the hotel at a discounted amount at the conclusion of the lease. The fair value of the lease liability is approximately equal to its carrying amount.

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

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

13. CAPITAL MANAGEMENT

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

At June 30, 2012, InnVest's primary contractual obligations consisted of long-term mortgage obligations and convertible debentures. InnVest is not permitted to exceed certain financial leverage amounts under the terms of the DOT. InnVest is permitted to hold indebtedness excluding convertible debentures up to a level of 60% of gross asset value. Further, InnVest is permitted to have indebtedness and convertible debentures up to a level of 75% of gross asset value. Indebtedness is computed as of the last day of each financial year excluding any indebtedness under any operating line, non-interest bearing indebtedness, trade accounts payable and for greater certainty, deferred income tax liability.

Under the terms of the DOT individual property mortgages, or mortgages on a pool of properties, cannot exceed 75% of the fair value of the underlying property.

At June 30, 2012, InnVest's leverage excluding and including convertible debentures was 43.9% and 61.1%, respectively, calculated as follows:

	June 30, 2012		December 31, 2011	
Total assets per consolidated balance sheet		$ 1,545,851		$ 1,564,111
Accumulated depreciation and amortization		275,313		235,118
Deferred income tax asset		(31,545)		(22,010)
Deferred income tax liability		(3,130)		(3,255)
Gross asset value		$ 1,786,489		$ 1,773,964
Book value of mortgages and other indebtedness[(1)]	$ 784,584	43.9%	$ 809,082	45.6%
Convertible debentures[(2)]	306,338	17.2%	306,338	17.3%
	$ 1,090,922	61.1%	$ 1,115,420	62.9%

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

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

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

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

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

InnVest is in compliance with these guidelines.

InnVest maintains an operating line with a Canadian chartered bank with the following covenants:

(a) Total indebtedness (including convertible debentures) up to a level of 70% of gross asset value.
(b) Trailing 12 months consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to consolidated interest expense of not less than 1.8 times (June 30, 2012 – 2.1 times and December 31, 2011 – 2.1 times);
(c) Trailing 12 months consolidated EBITDA to consolidated debt service of not less than 1.5 times (June 30, 2012 – 1.6 times and December 31, 2011 – 1.6 times); and
(d) Unitholders' Equity, of not less than $225,000 (June 30, 2012 – $282,499 and December 31, 2011 $329,422). Following the 2012 Reorganization (see Note 14), this requirement will increase to $300,000 to account for the presentation of IOT as equity as compared to its presentation in unitholders and other liabilities at June 30, 2012. As at June 30, 2012, the IOT liability totalled $46,768 (Note 16).

14. INCOME TAXES AND DEFERRED INCOME TAX

On July 20, 2011, the Minister of Finance announced changes in, among other things, the tax treatment of real estate investment trusts that have issued "stapled" securities. If the Minister of Finance's announcement is enacted as proposed and no changes were made to the existing structure of the REIT and IOT, then rents (and certain other amounts) paid by IOT to the REIT after the applicable transition date (expected to be July 20, 2012) would have ceased to be deductible in computing the income of IOT for Canadian income tax purposes.

In response to these proposed tax changes, InnVest completed a merger of IOT into the REIT effective on July 3, 2012 (the "2012 Reorganization"). The 2012 Reorganization resulted in all the former stapled unitholders and stapled debenture holders of the REIT and IOT holding only units or convertible debentures, as the case may be, of the REIT. The merged entity will be governed as a trust (see Note 25).

Prior to the completion of the 2012 Reorganization, InnVest was restricted from issuing Stapled Units, subject to certain exceptions. As a consequence, InnVest had suspended its distribution reinvestment plan ("DRIP") in August 2011 and satisfied all Trustee and deferred executive compensation in cash as opposed to the usual partial satisfaction in the form of units. Effective July 3, 2012, InnVest reinstated its DRIP and has resumed the issuance of units to satisfy Trustee and deferred executive compensation.

15. FINANCIAL INSTRUMENTS

Risk Management

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

INTEREST RATE RISK

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

InnVest's floating rate debt balance is monitored by management to minimize InnVest's exposure to interest rate fluctuations. As at June 30, 2012, InnVest's floating rate debt balance of $120,727 (December 31, 2011 – $82,617) is approximately 14.7% (December 31, 2011 – 10.2%) of total long-term debt, excluding convertible debentures.

CREDIT RISK

Credit risk relates to the possibility that hotel guests, either individual or corporate, do not pay the amounts owed to InnVest. InnVest mitigates this risk by limiting its exposure to customers allowed to pay by invoice after check out ("direct bill"). Accounts receivable as at June 30, 2012 are $33,316 (December 31, 2011 – $31,744). InnVest reviews accounts receivable regularly and the allowance for doubtful accounts is adjusted for any balances which are determined by management to be uncollectable. This provision adjustment is expensed in operating expenses. The allowance as at June 30, 2012 is $516 or 1.5% (December 31, 2011 – $530 or 1.7%) of total receivables. Bad debt expense included in operating expenses is $76 for the six months ended June 30, 2012 (2011 – credited by $34 due to prior year over provision). Accounts receivable amounts outstanding for over 90 days, which have not been provided for, total $221 at June 30, 2012 (December 31, 2011 – $1,084).

LIQUIDITY RISK

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

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

	Remainder of 2012	2013	2014	2015	2016	2017 and Thereafter	Contractual Cash flows[1]
Accounts payable and accrued liabilities	$ 83,996	$ –	$ –	$ –	$ –	$ –	$ 83,996
Mortgage payable – principal[2]	18,928	19,219	304,569	220,883	51,273	162,944	777,816
Mortgage payable – interest[3]	23,027	41,703	29,997	16,975	12,486	3,676	127,864
Operating line – principal	5,000	33,169	–	–	–	–	38,169
Operating line – interest	822	995	–	–	–	–	1,817
Bridge loan – principal	500	3,500	–	–	–	–	4,000
Bridge loan – interest	88	26	–	–	–	–	114
Convertible debentures – principal	–	74,980	70,000	–	36,358	125,000	306,338
Convertible debentures – interest	9,211	15,799	13,924	9,829	8,602	8,813	66,178
Long-term land leases	2,401	4,826	4,826	4,128	3,896	79,329	99,406
Total	$ 143,973	$ 194,217	$ 423,316	$ 251,815	$ 112,615	$ 379,762	$ 1,505,698

(1) Contractual cash flows include principal and interest payments and include extension options available to InnVest.
(2) Mortgage principal includes regular amortization and repayments at maturity.
(3) Interest for floating rate debt is based on interest rates prevailing at June 30, 2012.

Fair Values

The fair values of InnVest's financial assets and current liabilities approximate their recorded values at June 30, 2012 and December 31, 2011 due to their short-term nature.

The fair value of InnVest's long-term debt is greater than the carrying value by approximately $9,166 at June 30, 2012 (December 31, 2011 – $17,327) due to changes in interest rates since the dates on which the individual mortgages were arranged. The fair value of long-term debt has been estimated based on the current market rates for mortgages with similar terms, credit risks and conditions.

The fair value of InnVest's convertible debentures is greater than the carrying value by approximately $11,604 at June 30, 2012 (December 31, 2011 – $558). The fair value of convertible debentures is based on the market price for each series of convertible debentures as at each reporting date.

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

			June 30, 2012			December 31, 2011
	Level 1	**Level 3**	**Total**	Level 1	Level 3	Total
Financial Liabilities:						
InnVest Operations Trust	**$ –**	**$ 46,768**	**$ 46,768**	$ –	$ 36,762	$ 36,762
Exchangeable units	**1,705**	**–**	**1,705**	1,499	–	1,499
Convertible debentures holders' conversion option	**–**	**2,124**	**2,124**	–	514	514
Unvested executive compensation	**210**	**–**	**210**	343	–	343
Total financial liabilities	**$ 1,915**	**$ 48,892**	**$ 50,807**	$ 1,842	$ 37,276	$ 39,118

There were no transfers between Level 1 and Level 2 fair value measurements during the six months ended June 30, 2012 and 2011 and no transfer into and out of Level 3. There were no financial instruments measured at Level 2 at any of the dates presented.

The following table reconciles movements in financial instruments classified as Level 3 during the six months ended June 30, 2012 and 2011.

	InnVest Operations Trust	**Convertible Debentures Holders' Conversion Option**	**June 30, 2012**	InnVest Operations Trust	Convertible Debentures Holders' Conversion Option	Dec 31, 2011
Balance at beginning of the period	**$ 36,762**	**$ 514**	**$ 37,276**	$ 89,234	$ 19,097	$ 108,331
Loss (gain) in net income	**10,006**	**1,610**	**11,616**	(56,356)	(20,614)	(76,970)
Issuance	**–**	**–**	**–**	–	2,200	2,200
Other	**–**	**–**	**–**	3,884	(169)	3,715
Balance at the end of the period	**$ 46,768**	**$ 2,124**	**$ 48,892**	$ 36,762	$ 514	$ 37,276

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

Significant judgments, estimates and assumptions to unobservable inputs are used in determining the fair value of IOT and the convertible debentures holders' conversion option. For every 1% absolute change in IOT's relative value allocation of the consolidated entities, the liability changes by approximately $4,569.

Letters of Credit

As at June 30, 2012, InnVest has letters of credit totalling $3,565 (December 31, 2011 – $3,565) held on behalf of security deposits for various utility companies and liquor licences, and additional security for the pension liabilities.

16. UNITHOLDERS AND OTHER LIABILITIES

	June 30, 2012	December 31, 2011
InnVest Operations Trust	**$ 46,768**	$ 36,762
Exchangeable units	**1,705**	1,499
Convertible debentures holders' conversion option	**2,124**	514
Unvested executive compensation	**210**	343
Balance, end of period	**$ 50,807**	$ 39,118

InnVest Operations Trust

InnVest Operations Trust represents the InnVest unitholders' interest in IOT through ownership of the IOT non-voting units. At June 30, 2012, each non-voting unit of IOT traded together with each issued and outstanding unit of the REIT as an InnVest Unit. IOT indirectly holds the hotel operating assets along with a 50% interest in CHC. At June 30, 2012, the IOT holdings are presented as liabilities at their fair value.

During the six months ended June 30, 2012, distributions totalling $ nil (2011 – $2,256) were paid on the IOT units and are included as 'Finance costs' in the condensed consolidated statement of net income (loss) and comprehensive income (loss).

Effective July 3, 2012, following the completion of InnVest's 2012 Reorganization (see Note 14), substantially all of IOT's assets and liabilities have been transferred to the REIT such that IOT is a wholly-owned subsidiary of the REIT and will no longer be presented separately on the consolidated balance sheet in unitholders and other liabilities.

Exchangeable Units

As part of an acquisition made in 2005, InnVest granted 362,869 exchangeable units ("Exchangeable Units") to a third party. The Exchangeable Units receive a monthly cash payment equal to the value of the cash distributions that would have been paid on the InnVest Units if they had been issued on the date of grant. The Exchangeable Units are exchangeable into InnVest Units within three business days of prior written notice to InnVest.

The Exchangeable Units are presented as liabilities at their fair value based on the market price of InnVest Units. During the six months ended June 30, 2012, distributions totaling $73 (2011 – $90) were paid on the Exchangeable Units and are included as 'Finance costs' in the condensed consolidated statement of net income (loss) and comprehensive income (loss).

Convertible Debenture Holders' Conversion Option

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

Executive Compensation Plan

The senior executives participate in an incentive plan that involves the grant of InnVest Units which vest over time. The payment will be satisfied through the issuance of InnVest Units. Unvested units are presented as liabilities at their fair value. Upon issuance of InnVest Units (following the satisfaction of all vesting conditions), the liability is reclassified to equity at the then-current fair value based on the market price of InnVest Units.

17. UNITS OUTSTANDING

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

Units issued and outstanding:

	Units
Balance at January 1, 2011	89,474,691
Units issued	3,600,000
Units issued on conversion of debentures	371,221
Units issued under distribution reinvestment plan	47,609
Units issued under trustee and executive plans	44,501
Balance at December 31, 2011	93,538,022
Balance at June 30, 2012	**93,538,022**

Trustee Compensation Plan

The members of the Board of Trustees are meant to receive 50% of their annual retainer in units (based on the then current market price of the InnVest Units). InnVest has set aside 350,000 InnVest Units in reserve for this purpose. The balance in this reserve account at June 30, 2012 is 221,964 InnVest Units. Given restrictions on the issuance of stapled securities (see Note 14), since July 20, 2011, 100% of the Board of Trustees' compensation was paid in cash pending completion of the 2012 Reorganization on July 3, 2012.

Executive Compensation Plan

The senior executives participate in the executive compensation plan under which InnVest Units are granted by the Board of Trustees from time to time. All granted units vest equally on the third and fourth anniversaries of the effective date of grant. InnVest has reserved a maximum of 1,000,000 InnVest Units for issuance under the plan. The balance in this reserve account at June 30, 2012 is 662,302 InnVest Units. An InnVest Unit granted through the plan entitles the holder to receive, on the vesting date, the then current fair market value of the InnVest Unit plus the value of the cash distributions that would have been paid on the InnVest Unit if it had been issued on the date of grant assuming the reinvestment of the distribution into InnVest Units. The payment will be satisfied through the issuance of InnVest Units. Given restrictions on the issuance of stapled securities (see Note 14), 36,882 executive compensation units which vested in January 2012, were satisfied in cash as opposed to the issuance of InnVest Units.

The benefit resulting from the issuance of InnVest Units under this plan and any fair value adjustments on the liability are recorded as compensation expense, included in 'Corporate and administrative' expense in the condensed consolidated statements of net income (loss) and comprehensive income (loss).

The Board of Trustees approved the granting of 38,000 units during the six months ended June 30, 2012 (2011 – 27,815 units). At June 30, 2012, there were 80,754 (December 31, 2011 – 116,814) unvested executive units granted under the plan. The unvested units are presented as liabilities over the vesting periods. InnVest removed 40,932 unvested InnVest Units from this liability during the second quarter of 2012 following the resignation of a senior executive.

Distribution Reinvestment Plan ("DRIP")

InnVest has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from InnVest automatically reinvested in additional InnVest Units. On August 12, 2011 InnVest suspended its DRIP pending completion of the 2012 Reorganization (see Note 14). InnVest reinstated its DRIP effective July 3, 2012.

Normal Course Issuer Bids ("NCIBs")

In November 2011, the REIT and IOT jointly implemented NCIBs for their stapled units and Series F 5.75% Stapled Convertible Debentures and the REIT implemented NCIBs for its Series B 6.00% Convertible Debentures, Series C 5.85% Convertible Debentures, Series D 6.75% Convertible Debentures, Series E 6.00% Convertible Debentures. For the six months ended June 30, 2012, no units or convertible debentures were purchased under the NCIBs. The NCIBs expire November 14, 2012.

18. PER UNIT INFORMATION

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

		Three Months Ended June 30, 2012		Three Months Ended June 30, 2011
	Net Income	Weighted Average Units	Net Income	Weighted Average Units
Basic and diluted	**$ 1,963**	**93,538,022**	$ 1,965	93,425,837

		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011
	Net Loss	Weighted Average Units	Net Loss	Weighted Average Units
Basic and diluted	**$ (28,234)**	**93,538,022**	$ (18,070)	91,854,942

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

Weighted Average Units	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011
Convertible debentures	**30,838,721**	30,921,531

Weighted Average Units	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Convertible debentures	**30,838,721**	28,844,364

For the six months ended June 30, 2012, InnVest declared $18,689 distributions to unitholders (2011 – $23,065) Subsequent to the end of the quarter, InnVest declared $3,115 distributions to unitholders at $0.0333 per month to August 8, 2012.

19. CHANGES IN NON-CASH WORKING CAPITAL

During the six months ended June 30, 2012 and 2011, cash generated from (utilized in) non-cash working capital was as follows:

	2012	2011
Accounts receivable	**$ (4,025)**	$ (9,652)
Prepaid expenses and other assets	**(6,866)**	(7,046)
Accounts payable and other liabilities	**5,871**	1,572
Changes in non-cash working capital	**$ (5,020)**	$ (15,126)

20. RELATED PARTY DISCLOSURES

Westmont Hospitality Canada Limited

InnVest has a Management Agreement for hotel management and accounting services and an Administrative Services Agreement (the "Agreements") with Westmont Hospitality Canada Limited ("Westmont") pursuant to which Westmont is responsible for the management of the majority of the hotel businesses in InnVest.

Two trustees of InnVest have a direct or indirect controlling interest in Westmont and as such have a material interest in the Agreements. Westmont is considered a related party to InnVest as a result of its ability to exercise significant influence through the Agreements. At June 30, 2012, Westmont manages all but 14 of InnVest's hotels.

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

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

In addition to management fees and asset management fees, Westmont receives accounting fees based on a fixed charge per room which increases by the Consumer Price Index change annually.

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

Westmont is entitled to fees based on a percentage of the cost of purchasing certain goods and supplies and certain construction costs and capital expenditures, fees for accounting services, reasonable out-of-pocket costs and expenses (other than general and administrative expenses or overhead costs except as otherwise provided in the Administrative Services Agreement) and project management and general contractor service fees related to hotel renovations managed by Westmont.

For assets sold which are managed by Westmont, InnVest pays a termination fee equal to the fees paid based on trailing 12 months revenues.

During the three and six months ended June 30, 2012 and 2011, the fees charged to InnVest pursuant to the Agreements were as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	**Six Months Ended June 30, 2012**	Six Months Ended June 30, 2011
Management fees	**$ 3,135**	$ 2,985	**$ 5,683**	$ 5,439
Asset management fees				
(included in management fee expense)	**464**	504	**942**	1,007
Accounting services (included in hotel operating expenses)	**614**	596	**1,235**	1,192
Administrative services				
(included in corporate and administrative expenses)	**115**	112	**233**	228
Project management and general contractor services				
(capitalized to hotel properties)	**268**	177	**549**	448
Termination fees	**84**	–	**84**	–
	$ 4,680	$ 4,374	**$ 8,726**	$ 8,314

In addition, salaries of InnVest employees paid by Westmont and reimbursed by InnVest were $309 for the six months ended June 30, 2012 (2011 – $181). Included in accounts payable and accrued liabilities are amounts owed to Westmont at June 30, 2012 totalling $1,718 (December 31, 2011 – $1,563).

21. OTHER INCOME, NET

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	**Six Months Ended June 30, 2012**	Six Months Ended June 30, 2011
Gain on sale of hotel properties	**$ 1,320**	$ –	**$ 1,320**	$ –
Reversal of previous impairment	**801**	–	**801**	–
Writedown of a hotel property	**(687)**	–	**(687)**	–
Interest income on GST/HST refunds	**–**	2,110	**–**	2,110
Interest income	**23**	218	**34**	245
	$ 1,457	$ 2,328	**$ 1,468**	$ 2,355

For the three and six months ended June 30, 2012 other income includes $1,320 gain on sale of assets held for sale and the reversal of a previous impairment of $801 (Note 4) and a writedown of a hotel property (Note 5).

For the three and six months ended June 30, 2011, InnVest recorded $2,110 of interest income earned for prior periods' on Goods and Services Tax ("GST") refunds or Harmonized Sales Tax ("HST") refunds.

22. FINANCE COSTS – DISTRIBUTIONS

Distributions recorded as finance costs for the three and six months ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	**Six Months Ended June 30, 2012**	Six Months Ended June 30, 2011
Distributions to IOT unitholders	**$ –**	$ 576	**$ –**	$ 2,256
Distributions on Exchangeable units	**37**	45	**73**	90
	$ 37	$ 621	**$ 73**	$ 2,346

23. UNREALIZED LOSS ON LIABILITIES PRESENTED AT FAIR VALUE

Fair value (gain) loss recorded for the three and six months ended June 30, 2012 and 2011 are as follows:

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	**Six Months Ended June 30, 2012**	Six Months Ended June 30, 2011
InnVest Operations Trust (Note 16)	**$ 728**	$ (2,037)	**$ 10,006**	$ 564
Exchangeable units	**(203)**	(55)	**207**	11
Convertible debentures holders' converstion option	**(2,852)**	(2,625)	**1,610**	(2,818)
(Gain) loss for the period	**$ (2,327)**	$ (4,717)	**$ 11,823**	$ (2,243)

24. SEGMENT INFORMATION

The management of InnVest's operations is organized within four Canadian geographical regions: Western, Ontario, Quebec and Atlantic.

Unallocated functions include the revenues and costs associated with InnVest's proportionate share of CHC's franchise business, InnVest's retail, office and retirement assets, and costs of central corporate services provided. All key financing, investing and capital allocation decisions are centrally managed.

Revenues

Three Months Ended June 30, 2012	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 43,253**	**$ 56,636**	**$ 37,013**	**$ 23,401**	**$ 160,303**
Franchise business					**3,109**
Other real estate properties					**846**
Revenues					**$ 164,258**

Three Months Ended June 30, 2011	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 39,996	$ 57,828	$ 36,962	$ 23,317	$ 158,103
Franchise business					2,730
Other real estate properties					900
Revenues					$ 161,733

Six Months Ended June 30, 2012	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 80,684**	**$ 104,743**	**$ 64,167**	**$ 39,687**	**$ 289,281**
Franchise business					**5,222**
Other real estate properties					**1,678**
Revenues					**$ 296,181**

Six Months Ended June 30, 2011	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 73,820	$ 107,161	$ 63,523	$ 39,873	$ 284,377
Franchise business					4,575
Other real estate properties					1,815
Revenues					$ 290,767

Net Income (Loss)

Three Months Ended June 30, 2012	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 13,183**	**$ 13,794**	**$ 9,149**	**$ 5,080**	**$ 41,206**
Franchise business					**885**
Other real estate properties					**295**
Gross operating profit					**42,386**
Other expenses, net					**(39,750)**
Income tax expense					**(673)**
Net income					**$ 1,963**

Three Months Ended June 30, 2011	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 11,529	$ 14,212	$ 9,793	$ 5,304	$ 40,838
Franchise business					763
Other real estate properties					400
Gross operating profit					42,001
Other expenses, net					(38,343)
Income tax expense					(1,693)
Net income					$ 1,965

Six Months Ended June 30, 2012	**Western**	**Ontario**	**Quebec**	**Atlantic**	**Total**
Hotel properties	**$ 22,013**	**$ 20,306**	**$ 10,577**	**$ 5,197**	**$ 58,093**
Franchise business					**1,484**
Other real estate properties					**547**
Gross operating profit					**60,124**
Other expenses, net					**(98,019)**
Income tax recovery					**9,661**
Net loss					**$ (28,234)**

Six Months Ended June 30, 2011	Western	Ontario	Quebec	Atlantic	Total
Hotel properties	$ 18,825	$ 20,699	$ 11,263	$ 5,799	$ 56,586
Franchise business					1,294
Other real estate properties					754
Gross operating profit					58,634
Other expenses, net					(85,705)
Income tax recovery					9,001
Net loss					$ (18,070)

Hotel Properties

	Western	Ontario	Quebec	Atlantic	Total
June 30 ,2012	**$ 398,251**	**$ 525,356**	**$ 298,984**	**$ 179,706**	**$ 1,402,297**
December 31 ,2011	$ 417,670	$ 546,639	$ 305,916	$ 183,493	$ 1,453,718

Capital Expenditures on Hotel Properties

	Western	Ontario	Quebec	Atlantic	Total
Three months ended June 30, 2012	**$ 1,691**	**$ 2,947**	**$ 3,112**	**$ 1,850**	**$ 9,600**
Three months ended June 30, 2011	$ 2,188	$ 1,619	$ 2,847	$ 1,800	$ 8,454
Six months ended June 30, 2012	**$ 3,028**	**$ 7,164**	**$ 6,419**	**$ 2,882**	**$ 19,493**
Six months ended June 30, 2011	$ 6,280	$ 4,730	$ 7,386	$ 3,258	$ 21,654

25. SUBSEQUENT EVENT

2012 Reorganization

As described in Note 14, on July 3, 2012, InnVest completed its 2012 Reorganization to merge IOT into the REIT. Upon completion of this reorganization, InnVest wholly-owns an indirect interest in the entities that carry on the business of operating hotels. Under currently enacted tax law, this indirect ownership would cause InnVest to not meet the conditions required to be a real estate investment trust ("Qualified REIT") as defined in the Income tax Act.

As a result, effective July 3, 2012 InnVest is subject to the Specified investment flow-through ("SIFT") tax regime in the Income tax Act whereby its income would be subject to a corporate-like rate of income tax assuming its taxable income is distributed each year. Because application of the SIFT tax regime results in an entity-level tax, InnVest would be required to pay current income taxes on its taxable income and would also be required to record deferred taxes in respect of its temporary differences related primarily to its real estate assets.

Accordingly, InnVest may be required to record (effective for its third quarter of 2012) a deferred tax liability, based on the undistributed rate of income tax applicable to a SIFT trust (estimated to be 46.5%), of approximately $208,000 which will be charged to earnings. Management is working with its operating line lender to modify the minimum equity covenant restrictions to exclude the deferred income tax impact. InnVest unitholders' interest in IOT through ownership of the IOT non-voting units, which is included in 'Unitholders and other liabilities' at June 30, 2012, will also be reclassified to unitholders' equity at July 3, 2012.

The table below reflects the changes to unitholders' equity resulting from the 2012 Reorganization.

	July 3, 2012
Unitholders' equity – June 30, 2012	**$ 282,499**
Deferred income tax expense	**(208,000)**
InnVest Operations Trust reclassified from 'Unitholders and other liabilities'	**46,768**
Proforma Unitholders' equity – July 3, 2012	**$ 121,267**

The Minister of Finance has proposed amendments which would retroactively amend the conditions required to be a Qualified REIT, as defined in the Income tax Act. Even if those amendments are enacted as proposed, there are substantial factual uncertainties as to whether InnVest would be a Qualified REIT for its taxation years ending after the 2012 Reorganization under such proposed amendments.

26. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were authorized for issue by the Board of Trustees of InnVest on August 8, 2012.

Corporate and Unitholder Information

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Stock Exchange Listing

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

Registrar and Transfer Agent

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

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100 University Avenue, 11th floor
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Auditors

Deloitte & Touche LLP
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