2004 First Quarter Report to Unitholders
for the three months ended march 31, 2004

LETTER TO UNITHOLDERS

InnVest showed continuing improvement in the first quarter, as operating levels continued to improve on a year-over-year basis for three consecutive quarters. Although the results for the first quarter were slightly below last year, in the month of March we began to see an improvement, over prior year. The industry is continuing to recover from the difficult operating environment experienced in 2003 and an approach to 2002 operating levels is underway.

In April 2004, InnVest finalized the acquisition of nine hotels with 1,528 rooms, eight of which are Holiday Inns, with six located in Ontario, one in Alberta, and one in Nova Scotia, and one Quality Hotel located in Saskatchewan. The total purchase price for the nine hotels was $106.9 million plus transaction costs. The timing of this acquisition will allow InnVest to benefit from the majority of the seasonal cash flow generated in the second and third quarters of 2004. The acquisition was funded through the issuance of trust units and convertible debentures, and through long-term mortgage debt. A further hotel acquisition, a 193 room Holiday Inn located in Oshawa, Ontario, is scheduled to be finalized early in the third quarter. The acquisitions are expected to be virtually seamless given that the hotels are currently managed by an affiliate of InnVest's current hotel manager, and little change in the management structure is contemplated. These transactions are expected to be immediately accretive to distributable income in 2004 and provide further brand and customer diversity to the REIT's portfolio.

For the quarter, although InnVest's revenue per available room ("RevPAR") declined by 2.0%, we continue to enjoy a RevPAR premium over the Canadian limited service market sector, as our RevPAR of $40.86 is $3.51 or 9.4% higher than the limited service sector RevPAR as reported by Pannel Kerr Forster.

Continuing with its strategy of investing in its hotels, InnVest deployed approximately $1.4 million for capital asset improvements during the first quarter and committed an additional $1.1 million. For 2004, it is forecasted that InnVest will spend approximately $9.0 million in total on such improvements.

We are well positioned to identify attractive acquisition candidates and have significant unutilized capacity to make acquisitions that are accretive to cash flow. These include the unutilized portion of a $25 million operating line, an acquisition line of $40 million, a $24 million line for capital expenditures, and $75 million to refinance senior mortgage debt upon maturity.

Overall, the REIT continues to improve on a quarterly basis. We are taking the necessary actions to maximize results in the short term while continuing to execute on our strategy to build value over the longer term.

FINANCIAL REVIEW

Hotel revenues for the three months ended March 31, 2004 were $46.5 million, $792 or 1.7% lower than the $47.3 million generated for the same period in 2003. This decrease was due to a decline in occupancy of 0.6% points, and a decrease in average daily rates ("ADR") of $0.66 resulting in a revenue per available room ("RevPAR") decrease of 2.0%. Geographically, the overall decline in room revenues can be attributed to the Ontario and Quebec regions. The main markets contributing to this decline are the major centers including Toronto, Ottawa and Montreal. These results primarily reflect lingering effects of events which occurred in 2003, including SARS, the decrease in government and corporate travel, and the stronger Canadian dollar.

Hotel expenses for the three months ended March 31, 2004 declined by $295,000 or 0.8% compared to the previous year. Expense savings were realized in all areas except for a $372,000 increase in property taxes, repairs and maintenance and rooms expenses. This was offset by continued cost control initiatives which resulted in the remaining expense categories declining by $667,000 or 4.0% over 2003.

InnVest's operations are seasonal in nature, and as expected, a net loss was experienced in the first quarter. The net loss for the three months ended March 31, 2004 was $2.9 million or $0.117 per unit on a basic and diluted basis, compared with a net loss for the three months ended March 31, 2003 of $2.4 million or $0.106 per unit on a basic and diluted basis.

Distributable income for the three months ended March 31, 2004 was $779 or $0.019 per unit on a basic and diluted basis. This reflects a $330 decrease over the distributable income achieved for the three months ended March 31, 2003. Distributions for the three-month period were $11.6 million or $0.2813 per unit, which is consistent with the prior year.

InnVest's cash totaled $13.7 million including $13.4 million earmarked for furniture, fixture and equipment and capital improvements. Our financial leverage excluding convertible deventures at quarter end was 39.7% debt to gross asset value, well within our 50% limit.

OUTLOOK

We expect that the positive trend which began in July 2003 will continue and that RevPAR in the second quarter of 2004 will exceed 2003 levels. Although there continues to be weakness in certain markets, the overall market is improving, particularly in the areas which were most impacted by the events of 2003. While it is still early in the recovery, our expectation is that RevPAR in 2004 will show improvement over 2003.

Our priorities are to make selective acquisitions in the mid-scale limited and full service sectors that are accretive to earnings and cash flow, maximize revenues through room sales and marketing initiatives, maintaining room rates and controlling operating costs. Our unitholders have, and will continue to benefit from the geographical, customer, and brand diversity of the REIT's portfolio.

Kenneth Gibson
President and Chief Executive Officer
May 11, 2004

The following is a discussion of the results of operations and financial condition of InnVest Real Estate Investment Trust ("InnVest" or the "REIT") for the three months ended March 31, 2004, with a comparison with the results of operations of InnVest for the three months ended March 31, 2003.

The following management's discussion and analysis is dated May 5, 2004 and should be read in conjunction with the consolidated financial statements of the REIT and the notes thereto as at and for the three months ended March 31, 2004 and the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2003.

The financial statements of InnVest are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. Data in tabular form and in the text, unless otherwise indicated, are in thousands of dollars, except for per unit, Average Daily Rate ("ADR"), and Revenue per Available Room ("RevPAR") amounts.

Additional information relating to the REIT, including the REIT's annual information form, can be found at www.sedar.com.

FIRST QUARTER HIGHLIGHTS AND RECENT DEVELOPMENTS

- Monthly revenue trends compared to the prior year continued to show improvement
- RevPAR was 2.0% below the same period in 2003
- Experienced year-over-year revenue growth in March 2004, the first such monthly increase since February 2003
- April 2004 revenue also exceeded the same month in 2003
- In April 2004, acquired nine hotel properties, eight of which are Holiday Inn hotels and one of which is a Quality Hotel, with one further Holiday Inn hotel scheduled to close in the third quarter of 2004
- Closed on a public market transaction which raised net proceeds of $45.3 million in trust units and $54.9 million of convertible debentures
- Secured $61.4 million in long-term financing, of which $54.9 million was advanced in April 2004

DESCRIPTION OF INNVEST REIT

OBJECTIVES OF INNVEST

InnVest was established with two objectives: 1) to provide stable and growing cash distributions to Unitholders, and 2) to maximize the long-term value of the REIT by continuing to actively manage the hotel assets and to make selective acquisitions that are expected to be accretive to earnings and cash flow.

OPERATIONS OVERVIEW

InnVest is comprised of: 1) Canada's largest portfolio of hotels, measured by the number of hotels and number of guest rooms, with locations in every province; and 2) a 50% interest in Choice Hotels Canada Inc. ("Choice Canada"), the largest franchisor of hotels in Canada.

Hotel Ownership

Hotels can be categorized by service level and by market positioning. First, there are limited service and full service hotels. Limited service hotels generate a substantial component of their revenues from guest room rentals, generally providing only limited food and beverage or other ancillary services. They tend to target more price-sensitive customers. Full service hotels typically offer a wider range of services including restaurants, lounges, meeting facilities, and often business centres, fitness centres, and more. As a result, full service hotels have higher fixed costs than limited service properties.

The second categorization reflects the market positioning (price-point) of the property. The most basic hotels (and motels) are in the budget sector. Moving up in price there are the economy, mid-scale without food and beverage ("F&B"), mid-scale with F&B, upscale and luxury categories. The budget, economy and mid-scale without F&B categories combine to form the limited service category. The REIT's hotels are primarily in the mid-scale without F&B category, with a growing number of hotels in the mid-scale with F&B category.

As of May 5, 2004, and after the acquisition of nine hotels in April, 2004, InnVest owns 123 internationally branded limited service and mid-scale with food and beverage hotels, located in every province of Canada (the “hotel portfolio”). The hotel portfolio includes 100 hotels flagged with Choice brands (Comfort Inn®, Quality Inn®, Quality Hotel® and Quality Suites®), 13 Travelodge® hotels, nine Holiday Inn® hotels and one Best Western® hotel. The chart below summarizes InnVest’s brand distribution as at March 31, 2004 and subsequent to the hotels acquired in April 2004.

	As at March 31, 2004			As at May 5, 2004		
Brands	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms
Comfort Inn	84	6,747	58.4%	84	6,747	51.6%
Travelodge	13	2,118	18.4%	13	2,118	16.2%
Quality Hotel	7	1,297	11.2%	8	1,423	10.9%
Holiday Inn	–	–	–	8	1,402	10.7%
Quality Suites/Inns	8	1,096	9.5%	8	1,096	8.4%
Holiday Inn Express	1	163	1.4%	1	163	1.2%
Best Western	1	130	1.1%	1	130	1.0%
	114	11,551	100.0%	123	13,079	100.0%

A considerable amount of each brand’s business is generated through the franchise company’s central reservation system. In 2003, for the REIT’s Choice branded hotels, which represent the majority of the hotel portfolio, the central reservation system generated 21.2% of the business of Comfort Inns, and 23.7% of the business of Quality Hotels and Suites.

Geographically, the REIT’s guest rooms are concentrated in Ontario and Quebec (together representing 72% of guest rooms as of May 5, 2004) where the majority of Canada’s population and business activity is located, with the balance of properties in population centres in the Atlantic and Western provinces. A summary of the geographic distribution by brand as at March 31, 2004 is as follows:

Brand distribution by geographic region
As at March 31, 2004

	Ontario			Quebec			Atlantic			Western		
	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Total Guest Rooms
Comfort Inn	37	3,093	26.8%	22	1,754	15.2%	16	1,155	10.0%	9	745	6.4%
Travelodge	8	1,041	9.0%	–	–	–	1	160	1.4%	5	1,077	9.3%
Quality Hotel	4	839	7.3%	2	298	2.6%	–	–	–	–	–	–
Quality Suites/ Inns	4	604	5.2%	4	492	4.3%	–	–	–	–	–	–
Holiday Inn Express	1	163	1.4%	–	–	–	–	–	–	–	–	–
Best Western	1	130	1.1%	–	–	–	–	–	–	–	–	–
	55	5,870	50.8%	28	2,544	22.0%	17	1,315	11.4%	14	1,822	15.8%

The REIT’s geographic distribution did not change significantly as a result of the hotels acquired in April 2004. The hotels are typically located near major thoroughfares in urban and suburban areas, near demand generators such as business centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business travelers, leisure travelers, groups, organizations and corporate clients.

Franchise Business

InnVest owns 50% of Choice Canada, which has franchise agreements with approximately 270 locations open or under development in Canada, and more than 23,000 guest rooms. The other 50% is owned by Choice Hotels International Inc. ("Choice International"), which is 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.

Choice Canada earns franchise revenues by charging monthly royalty fees to hotel owners based on a percentage of the revenue generated by the licenced properties and by selling franchises. In 1993 Choice Canada was granted a 99-year licence to franchise all Choice hotel brand names in Canada.

BUSINESS STRATEGY

Operating Strategy

InnVest's operating strategy is to continue to enhance the performance of the hotel portfolio. The manager of the hotel portfolio is Westmont Hospitality Management Canada Limited ("Westmont"), one of the largest privately held owner/operators of hotels in the world. InnVest, through its hotel manager applies four main operating and strategic principles to maximize efficiencies and internal growth: (1) maximizing the performance of each individual hotel; (2) utilizing yield management and market strategies to maximize RevPAR; (3) improving operating efficiencies and economies of scale; and (4) continually maintaining the quality of the portfolio.

Westmont has approximately eight and one-quarter years remaining on a 10-year master hotel management agreement to manage InnVest's hotel portfolio and is subject to non-competitive arrangements.

Acquisition Strategy

InnVest will seek to increase cash flow and enhance unit value through selective acquisitions that are expected to be accretive to earnings and cash flow.

To further diversify its hotel portfolio and to capitalize on a continued strengthening of the hotel market, InnVest expanded its focus on the mid-scale with food and beverage sector through the execution of two transactions. The first transaction was the acquisition of the 196 room Holiday Inn Dartmouth, Nova Scotia, which closed on April 5, 2004. The second transaction was a portfolio acquisition that was comprised of nine hotels with 1,525 rooms, eight of which are Holiday Inns located in Ontario with the ninth being a Quality Hotel located in Saskatchewan. This transaction will be closed in two stages; eight hotels were acquired on April 7, 2004 and the ninth hotel acquisition will be completed in July, 2004, giving InnVest the benefit of the seasonal cash flow to be generated in the second and third quarters of 2004. This acquisition was funded through the April 2, 2004 issuance of trust units and convertible debentures and through the securing of long-term debt.

Based on 2003 actual results and the REIT's expectation of growth in 2004, both acquisitions are expected to be immediately accretive to distributable income. The newly acquired or to-be-acquired hotels have been or will be integrated into InnVest seamlessly given that an affiliate of Westmont previously managed the hotels and little change in the management structure is contemplated.

Each of the vendors of the acquired or to-be-acquired hotel properties is considered a related party of the REIT as defined in the Declaration of Trust of the REIT. As a result, the Trustees of the REIT established an independent committee comprised of the REIT's Independent Trustees as defined in the Declaration of Trust to assess the transaction. The independent committee retained its own legal counsel for the purpose of this assessment.

In compliance with their obligations under the Declaration of Trust, the Independent Trustees retained various independent third party professionals whom they relied upon in their assessment including an appraiser, financial advisor, structural engineer and environmental consultant. Upon completion of their assessment and review of the reports prepared by the independent third party professionals, the Independent Trustees recommended the approval of, and the trustees of the REIT unanimously approved, the acquisitions.

COMPETITIVE STRENGTHS

InnVest has a number of competitive strengths which should enable it to carry out its business and acquisition strategies:

* With Canada's largest hotel portfolio, it plans to continue to leverage its size and scale to achieve superior operating efficiencies and margins, through centralized purchasing and other functions;
* The strength of its international brands brings name recognition, central reservation systems, marketing and customer loyalty programs and quality standards;
* The 50% ownership interest in Choice Canada brings favourable franchise terms, the benefits of being a franchisor, and provides the right to participate in the maintenance and enforcement of operating standards across the entire portfolio of hotels in Canada, in the approval of any new Choice-branded hotels in Canada and in the removal of any defaulting franchisees;
* Westmont's professional management and extensive experience in Canada and international markets enables InnVest to maximize its performance;
* The geographic and customer diversity offset regional and industry sector cyclicality;
* InnVest has a balanced capital structure, supporting its growth strategy while mitigating risks; and
* The deal-sourcing capabilities of InnVest and Westmont together with their deal-making capacities, position InnVest to make attractive acquisitions.

CANADIAN HOTEL MARKET OVERVIEW

During the three months ended March 31, 2004 the Canadian hotel industry and consequently InnVest continued to rebound from the number of unusual events that occurred in 2003 which negatively impacted the industry. The most significant of these events began at the end of the first quarter of 2003 with the war in Iraq, the outbreak of severe acute respiratory syndrome ("SARS"), and the strengthening of the Canadian dollar relative to the United States dollar, which we define as "the events of 2003".

As a result of the events of 2003, the hotel industry experienced a decrease in hotel demand, particularly in the Greater Toronto Area ("GTA"). Although the GTA was directly impacted, other markets were also affected due to the decline in tour groups that typically include Toronto in their points of destination. Operating levels in 2004 are expected to return to normalized levels across the country, and growth over 2003 is expected to be particularly strong in those markets that were hit the hardest last year.

FINANCIAL PERFORMANCE REVIEW

In reviewing the performance of InnVest, a comparison of the results of operations for the three months ended March 31, 2004 is being made to the results of operations for the comparable period in 2003. Further comparisons are being made to each quarter ended in 2003 and the last three quarters of 2002 for hotel operations. Hotel operating results on a quarterly basis are unaudited. InnVest's results through to net income and distributable income are compared on a quarterly basis starting with the period ended September 30, 2002, as the REIT began its operations on July 26, 2002.

Financial Highlights Summary

Three months ended March 31,	2004	2003
Hotel revenues	**$ 46,513**	$ 47,305
Hotel expenses	**35,054**	35,349
Hotel operating income	**11,459**	11,956
Net loss	**$ (2,868)**	$ (2,354)
Net loss per unit		
– basic	**$ (0.117)**	$ (0.106)
– diluted	**$ (0.117)**	$ (0.106)
Net loss	**$ (2,868)**	$ (2,354)
Add / (deduct)		
Depreciation and amortization[1]	**7,853**	7,598
Future income tax recovery	**(626)**	(542)
Non-cash executive and trustee compensation	**72**	102
Funds from operations[2]	**$ 4,431**	$ 4,804
Funds from operations per unit[3]		
– basic	**$ 0.063**	$ 0.072
– diluted	**$ 0.063**	$ 0.072
Funds from operations	**$ 4,431**	$ 4,804
Amortization of fair value debt adjustment	**(342)**	(341)
Amortization of deferred financing costs	**375**	366
Reserve for replacement of furniture, fixtures and equipment and capital improvements	**(1,860)**	(1,892)
Convertible debentures interest	**(1,825)**	(1,828)
Distributable income[2]	**$ 779**	$ 1,109
Distributable income per unit[3]		
– basic	**$ 0.019**	$ 0.027
– diluted	**$ 0.019**	$ 0.027
Distributions[4]	**$ 11,619**	$ 11,553
Distributions per unit[4]	**$ 0.2813**	$ 0.2813

(1) For purposes of the calculation of funds from operations, amortization of deferred finance costs is excluded from depreciation and amortization.

(2) Funds from operations and distributable income are measures of earnings and cash flow commonly used by industry analysts that are not required under Canadian generally accepted accounting principles, and accordingly, may not be comparable to similar measures used by other organizations.

(3) Funds from operations per unit and distributable income per unit have been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

(4) Distributions and distributions per unit include cash distributions and distributions arising from the Distribution Reinvestment Plan.

KEY PERFORMANCE INDICATORS

The key measures that indicate the performance of the hotel industry and the relative strength of participants in the industry are Occupancy, ADR and RevPAR. These key performance indicators for the REIT's hotel portfolio by geographic region in Canada for the three months ended March 31, 2004 and the comparable period are as follows:

Three months Ended March 31		2004		2003	Var %
Occupancy					
Ontario		**53.9%**		54.6%	(1.3%)
Quebec		**55.6%**		58.1%	(4.3%)
Atlantic		**52.3%**		52.8%	(0.9%)
Western		**46.9%**		44.6%	5.2%
Total		**53.0%**		53.6%	(1.1%)
ADR					
Ontario	**$**	**80.92**	$	82.28	(1.7%)
Quebec	**$**	**79.61**	$	79.87	(0.3%)
Atlantic	**$**	**69.96**	$	68.98	1.4%
Western	**$**	**64.80**	$	63.83	1.5%
Total	**$**	**77.13**	$	77.79	(0.8%)
RevPAR					
Ontario	**$**	**43.59**	$	44.93	(3.0%)
Quebec	**$**	**44.28**	$	46.40	(4.6%)
Atlantic	**$**	**36.56**	$	36.41	0.4%
Western	**$**	**30.40**	$	28.47	6.8%
Total	**$**	**40.86**	$	41.69	(2.0%)

Room revenues for the three months ended March 31, 2004 were $42.9 million, $389 or 0.9% lower than the $43.3 million generated for the same period in 2003. This decrease was due to a decrease in occupancy of 0.6% points (1.1%), from 53.6% to 53.0% and a decrease in ADR of $0.66 (0.8%) for a RevPAR decrease of 2.0%, partially offset by the extra leap year day in February 2004. Geographically, the overall decline in room revenues can be attributed to the Ontario and Quebec regions. The main markets contributing to this decline are the major centers such as Toronto, Ottawa and Montreal. These results primarily reflect the negative effects on demand due to the lingering effects of the events of 2003 and the decrease in government and corporate travel.

REGIONAL OPERATING RESULTS COMPARISON

	Ontario		Quebec		Atlantic		Western		Total	
For the Three Months Ended March 31	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Occupancy	**53.9%**	54.6%	**55.6%**	58.1%	**52.3%**	52.8%	**46.9%**	44.6%	**53.0%**	53.6%
ADR	**$ 80.92**	$ 82.28	**$ 79.61**	$ 79.87	**$ 69.96**	$ 68.98	**$ 64.80**	$ 63.83	**$ 77.13**	$ 77.79
RevPAR	**$ 43.59**	$ 44.93	**$ 44.28**	$ 46.40	**$ 36.56**	$ 36.41	**$ 30.40**	$ 28.47	**$ 40.86**	$ 41.69
Room revenues	**$23,281**	$23,734	**$10,250**	$10,623	**$ 4,375**	$ 4,309	**$ 5,040**	$ 4,669	**$42,946**	$43,335
Total revenues	**$25,463**	$26,165	**$11,005**	$11,507	**$ 4,583**	$ 4,523	**$ 5,462**	$ 5,110	**$46,513**	$47,305
Hotel operating expenses and management fees	**$15,314**	$15,721	**$ 6,928**	$ 7,097	**$ 2,901**	$ 2,828	**$ 3,778**	$ 3,760	**$28,921**	$29,406
Gross operating profit	**$10,149**	$10,444	**$ 4,077**	$ 4,410	**$ 1,682**	$ 1,695	**$ 1,684**	$ 1,350	**$17,592**	$17,899
GOP margin	**39.9%**	39.9%	**37.0%**	38.3%	**36.7%**	37.5%	**30.8%**	26.4%	**37.8%**	37.8%
Property taxes, rent and insurance	**$ 3,701**	$ 3,611	**$ 1,276**	$ 1,219	**$ 516**	$ 480	**$ 640**	$ 633	**$ 6,133**	$ 5,943
Hotel operating income	**$ 6,448**	$ 6,833	**$ 2,801**	$ 3,191	**$ 1,166**	$ 1,215	**$ 1,044**	$ 717	**$11,459**	$11,956
HOI margin	**25.3%**	26.1%	**25.5%**	27.7%	**25.4%**	26.9%	**19.1%**	14.0%	**24.6%**	25.3%

HOTEL REVENUES

Hotel revenues consist primarily of revenue generated from room occupancy. Revenue from food and beverage services and other miscellaneous revenue streams associated with hotel operations such as space leases, vending commissions, movie rentals, parking and telephone are also included and account for 7.3% of the total revenue of the hotel portfolio in 2003 and 7.5% in 2002. Revenues other than room revenues for the three months ended March 31, 2004 account for 7.7% (2003 – 8.4%) of total hotel revenues. The mix of room revenue and all other revenue will change somewhat upon the inclusion of the results of operations from the hotels acquired in the second quarter or to-be-acquired in the third quarter.

Other revenues declined by $403, with the main contributor being food and beverage revenue, which declined by $244. Over 50% of this decline can be attributed to InnVest's Montreal hotels, where a $124 decline was experienced. A restaurant in a Montreal hotel, which was previously operated internally, was leased to a tenant in early 2004 and accounted for the majority of the revenue decline. InnVest will experience a decline in revenue and a corresponding decline in expenses, which will be replaced with contractual lease income, the result of which is expected to be an increase to hotel operating income. Telephone revenues declined by $90 continuing a trend being experienced across the industry.

A geographical comparison of the room revenue variance between the three months ended March 31, 2004 and March 31, 2003 is as follows:

	Hotels	Rooms	As a % of total	Room revenue variance	As a % of total	Var % over 2003
Greater Toronto Area ("GTA")	10	1,755	15.2%	$ (166)	42.7%	(2.2%)
Ontario other	45	4,115	35.6%	(287)	73.8%	(1.8%)
Total Ontario	55	5,870	50.8%	(453)	116.5%	(1.9%)
Quebec	28	2,544	22.0%	(373)	95.9%	(3.5%)
Atlantic	17	1,315	11.4%	66	(17.0%)	1.5%
Western	14	1,822	15.8%	371	(95.4%)	7.9%
Total	114	11,551	100.0%	$ (389)	100.0%	(0.9%)

Ontario

Geographically, for the three months ended March 31, 2004, InnVest's Ontario properties, which account for 50.8% of the InnVest portfolio, contributed over 116.5% of the decline in room revenue. The GTA alone, which accounts for only 15.2% of the InnVest portfolio, contributed 42.7% or $166 of the overall decline as room revenues declined by 2.2%. The REIT's Ottawa region hotels, which account for only 5.5% of the InnVest portfolio, contributed 58.8% or $229 of the overall decline, with room revenues declining by 8.6%. A freeze on Government travel in the first quarter was the main contributing factor. The REIT's Windsor hotels' room revenue declined 5.1% over 2003 as employee strikes at the Windsor casino negatively impacted the market. The remainder of the REIT's Ontario hotels, which account for 27.4% of the InnVest portfolio continued to perform in line with 2003, posting a modest improvement of 0.2% over 2003.

Quebec

The decrease of $373 in Quebec was attributable to properties located in Montreal, as our Montreal properties decreased $620 or 10.2% over the prior year, with the declines attributed to the corporate sector, while the remainder of the REIT's Quebec hotels posted room revenue increases of 5.5% over 2003. The REIT experienced strong growth in various rural Quebec markets.

Atlantic

InnVest's Atlantic region hotels experienced 1.5% growth over the prior year, with improvements in various hotels such as the Comfort Inn in Charlottetown, Prince Edward Island, Fredericton, New Brunswick and Yarmouth, Nova Scotia.

Western

The REIT's strongest region over the three-month period was western Canada, where a room revenue increase of 7.9% was realized. The increase is attributable to successful sales effort with local corporate and group accounts and a renewed focus on crew business. Strong markets that contributed to the increase were Edmonton, Alberta, Chilliwack, British Columbia and Saskatoon, Saskatchewan.

Overall Hotel Portfolio

The decline in room revenues in the first quarter was experienced entirely in January and February, with modest growth experienced in March. This was expected, as January and February 2003 were strong months in terms of revenue generation and the events of 2003 did not affect our business until late in March 2003. These results demonstrate the lingering effects of the events of 2003, with Ontario being the most adversely affected in absolute dollars and Quebec, particularly the Montreal market experiencing the largest revenue decline on a percentage basis.

HOTEL EXPENSES

Hotel expenses for the three months ended March 31, 2004 declined by $295 or 0.8% compared to the previous year. Although occupancy dropped by 1.1%, occupied rooms remained flat as the result of the extra day in 2004. Expense savings were realized in all areas except property taxes, repairs and maintenance and rooms expenses. Property taxes increased $237 or 4.6% over the prior year, repairs and maintenance increased by $79 or 3.6%, while rooms expense increased marginally by $56 or 0.5%. Continued cost control initiatives resulted in the remaining expense categories declining by $667 or 4.0% from 2003.

InnVest's Ontario region hotels experienced an overall decline in occupied rooms of 0.2%, yet experienced a $317 or 1.6% decrease in hotel expenses for the three months ended March 31, 2004 over the same period in 2003.The Quebec region hotels experienced an overall decline in occupied rooms of 3.2%, and managed a $112 or 1.3% decrease in hotel expenses during the quarter. The Atlantic region hotels experienced an overall increase in occupied rooms of 0.2%, while experiencing a $109 or 3.3% decrease in hotel expenses during the quarter. InnVest's Western region hotels experienced an overall increase in occupied rooms of 6.3%, and managed a $25 or 0.6% increase in hotel expenses during the quarter.

HOTEL OPERATING INCOME

Hotel operating income ("HOI") for the three months ended March 31, 2004 declined by $497 to $11.5 million from the $12.0 million achieved in the first quarter of 2003. This was a result of lower hotel revenues achieved by the hotel portfolio of $792, along with an overall decline in hotel expenses of $295.

A geographical comparison of the hotel operating income variance between the three months ended March 31, 2004 and March 31, 2003 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2003
Greater Toronto Area ("GTA")	10	1,755	15.2%	$ (144)	29.0%	(8.8%)
Ontario other	45	4,115	35.6%	(241)	48.5%	(4.6%)
Total Ontario	55	5,870	50.8%	(385)	77.5%	(5.6%)
Quebec	28	2,544	22.0%	(390)	78.5%	(12.2%)
Atlantic	17	1,315	11.4%	(49)	9.8%	(4.0%)
Western	14	1,822	15.8%	327	(65.8%)	45.6%
Total	114	11,551	100.0%	$ (497)	100.0%	(4.2%)

The GTA hotels experienced a $144 or 1.9% decrease in HOI accounting for 29.0% of the REIT's decline, while Ottawa area hotels accounted for 51.7% of the HOI decrease, and Montreal area hotels accounted for 106.4% of the overall decline. InnVest's Quebec hotels outside of Montreal experienced a $154 or 3.1 % increase in HOI, while the strongest region was Western Canada, which posted a $327 or 7.0% increase in HOI.

OTHER INCOME AND EXPENSES

Other income and expenses consist of interest on mortgages, corporate and administrative costs, capital tax, franchise business income, other income and depreciation and amortization.

The net amount of other income and expenses for the first quarter was $14.6 million, which was $113 or 0.8% more than the same quarter in 2003. The main contributors to this change was $257 savings in interest expense due to lower interest rates in the first quarter of 2004 versus 2003 on the REIT's floating rate debt, higher franchise business income of $91 mainly due to cost control initiative undertaken at Choice Canada, offset by higher depreciation and amortization of $264 and an increase in corporate and administrative expenses of $178 due primarily to increases in directors' and officers' insurance, trustees fees and salary, benefits and search costs related to a new executive position.

INCOME TAXES

Current income tax expense remained relatively unchanged for the three months ended March 31, 2004 at $305 versus $317 experienced for the same period in 2003. Future income tax expense is recorded as a result of temporary differences between the measurement of income for tax and accounting purposes for the REIT's corporate subsidiaries. The largest temporary difference is the result of differences between depreciation for accounting purposes and the lesser amount claimed as capital cost allowance for income tax purposes. Temporary differences are recorded at the substantively enacted corporate tax rates at which these differences are expected to reverse. In the current period, as a result of the reversal of previously planned corporate income tax rate reductions in the province of Ontario, enacted tax rates in future years, which were previously expected to decrease, have now been legislated to stay constant in future years for corporations based in Ontario. As a result of InnVest's portfolio exposure to Ontario, the impact of the legislative change led to an increase of $84 to $626 in future income tax expense over the same period in 2003.

For calendar 2003, the REIT reported that 52.5% of the distributions made in 2003 would not be currently taxable to the Unitholders. The REIT estimates that the non-taxable portion of the planned distributions to the Unitholders for 2004 will be approximately 34%.

NET LOSS

InnVest's operations are seasonal in nature and, as expected, a net loss was experienced in the first quarter. The net loss for the three months ended March 31, 2004 was $2.9 million or $0.117 per unit – basic (diluted – $0.117), compared with a net loss for the three months ended March 31, 2003 of $2.4 million or $0.106 per unit – basic (diluted – $0.106). The variance of $514 is primarily a result of a decrease of $497 in hotel operating income.

DISTRIBUTABLE INCOME

Distributable income is not a measure defined under Canadian generally accepted accounting principles, however it is commonly used in the Real Estate Investment Trust industry to measure performance and relative performance within the industry.

Distributable income for the three months ended March 31, 2004 was $779 or $0.019 per unit – basic (diluted – $0.019). This reflects a $330 decrease from the distributable income achieved for the three months ended March 31, 2003 of $1.1 million or $0.027 per unit – basic (diluted – $0.027). The $330 decrease is primarily the result of a $514 increase in the net loss, partially offset by an increase in depreciation and amortization which is added back in the calculation of distributable income. Distributions for the three-month period were $11.6 million or $0.2813 per unit, which is consistent with the fourth quarter in 2003. The first quarter is typically the lowest in terms of cash flow generated from operations and consequently the excess of distributions to unitholders over distributable income was $10.8 million for three months ended March 31, 2004 as compared to $10.4 million for the same period in the previous year.

CHANGES IN FINANCIAL CONDITION

The following discussion evaluates the cash flow results of InnVest from operational, investing, and financing activities.

Operating Activities

Funds generated from operating activities were $4.4 million for the three months ended March 31, 2004 and $4.8 million for the three months ended March 31, 2003. The $373 decrease is attributable to a decrease in hotel operating income partially offset by the net of savings in interest expense and increases in corporate and administrative expenses.

Financing Activities

Funds from financing activities generated a deficit of $5.0 million for the three months ended March 31, 2004 compared to a $15.7 million deficit for the three months ended March 31, 2003. The majority of this change relates to a $9.0 million advance on the REIT's operating line and other bank indebtedness to fund financing and other costs related to the acquisition that closed in April, 2004 and working capital. The decrease in cash distributions of $612 related to the implementation of the distribution reinvestment plan, which was not in effect until the middle of the second quarter of 2003, partially offset by distributions on newly issued units.

On April 2, 2004, InnVest closed an equity and convertible debenture issue pursuant to a final short form prospectus dated March 23, 2004. InnVest used the funds raised, along with long-term mortgage financing secured in part to purchase the acquired and to-be-acquired hotels as follows:

	Closed April, 2004	Scheduled to close in Third Quarter	Total
Funds from financing activities			
Trust units, net of commissions and costs	$ 45,281	$ –	$ 45,281
Convertible debentures, net of commissions and costs	54,944	–	54,944
Long-term debt mortgage financing	54,875	6,500	61,375
Capital lease obligation assumed	1,681	–	1,681
	$ 156,781	$ 6,500	$ 163,281
Less purchase price and related costs	$ 116,446	$ 14,231	$ 130,677
Excess cash	$ 40,335	$ (7,731)	$ 32,604

InnVest intends to deploy the excess cash raised to make selected acquisitions that will be accretive to earnings and cash flow.

CONVERTIBLE DEBENTURES

The REIT raised a total amount of $57.5 million in convertible debentures, which bear interest at an annual rate of 6.25% payable semi-annually in arrears on April 15 and October 15 in each year commencing October 15, 2004. The debentures have a term of seven years and are convertible into units of the REIT at a conversion price of $12.50 per unit.

MORTGAGE FINANCING

The REIT secured two pools of mortgage financing with each pool secured by five of the acquired or to-be-acquired hotels. The first mortgage pool of financing is $31.1 million, which was fully funded in April 2004. These mortgages bear interest at an annual rate of 6.65% compounded semi-annually and are payable in blended monthly payments of interest and principal amortized over 21.4 years during their 10-year term. The second mortgage pool of financing is $30.3 million, of which $23.8 million was advanced in April 2004, with the remaining $6.5 million scheduled to be advanced in July 2004. These mortgages bear interest at an annual rate of 6.60% compounded semi-annually and are payable in blended monthly payments of interest and principal amortized over 25 years during their 10-year term.

Investing Activities

Funds from investing activities generated a deficit of $7.2 million for the three months ended March 31, 2004 compared to a $1.9 million deficit for the three months ended March 31, 2003. This decrease was the result of increases in other assets related to the acquisitions which closed in April 2004 of $5.8 million and a reduction in capital expenditures in the quarter of $653 net of changes in the restricted cash balance.

As part of the regular refurbishment program, InnVest sets aside 4% of revenues for the replacement of furniture, fixture and equipment and capital improvements ("FF&E reserve") shown as restricted cash in the financial statements. The FF&E reserve is managed over the longer term to maintain the hotel properties in order to ensure that they remain competitive in their markets. For the three months ended March 31, 2004 and 2003 a total amount of $1.4 million and $2.0 million respectively was spent on capital items. The FF&E reserve balance at March 31, 2004 was $13.4 million, a decrease of $22 over the period.

The REIT intends to follow a program of completing a significant amount of its property refurbishments when there is less hotel demand, as it is management's objective to displace a minimal amount of business from rooms being out of service for refurbishment.

Subsequent Events

On April 5, 2004 InnVest acquired the 196-room Holiday Inn Dartmouth, Nova Scotia. During the most recent quarter, InnVest entered into an agreement to acquire the following nine hotels, eight of which were acquired on April 7, 2004 and one of which is scheduled to close in July 2004. A listing of the acquired and to-be-acquired hotels is as follows:

Acquired hotels	Acquisition Date	No. of Rooms
Holiday Inn – Dartmouth, Nova Scotia	April 5	196
Holiday Inn – Burlington, Ontario	April 7	240
Holiday Inn – Calgary, Alberta	April 7	152
Holiday Inn – Guelph, Ontario	April 7	136
Holiday Inn – Kanata, Ontario	April 7	152
Holiday Inn – Kingston, Ontario	April 7	197
Holiday Inn – Toronto (Airport), Ontario	April 7	191
Holiday Inn – Mississauga, Ontario	April 7	138
Quality Hotel – Regina, Saskatchewan	April 7	126
Holiday Inn – Oshawa, Ontario	July 2004	193
		1,721

The Holiday Inn Dartmouth, Nova Scotia hotel was acquired for $8.8 million and was funded through a combination of cash on hand and advances on the REIT's operating line. The other nine hotels were acquired for $111.5 million and were funded through the issuance of trust units, convertible debenture and long-term mortgage financing.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The following chart summarizes InnVest's future contractual obligations as at March 31, 2004 and additional obligations related to the acquired hotels:

	Balance of 2004	2005	2006	2007	2008	2009 and thereafter
As at March 31, 2004						
Long-term debt	$ 5,082	$ 7,179	$ 149,139	$ 3,156	$ 144,453	$ –
Operating equipment leases	413	511	500	393	290	479
Long-term land leases	985	1,417	1,361	1,192	1,196	66,982
Convertible debentures	–	–	–	75,000	–	–
	6,480	9,107	151,000	79,741	145,939	67,461
Related to hotels acquired in April, 2004						
Long-term debt	603	1,109	1,184	1,265	1,352	49,362
Capital lease	114	85	88	92	79	1,223
Operating equipment leases	120	42	3	–	–	–
Long-term land lease	91	125	128	132	136	1,964
Convertible debentures	–	–	–	–	–	57,500
	928	1,361	1,403	1,489	1,567	110,049
Adjusted pro forma total	$ 7,408	$ 10,468	$ 152,403	$ 81,230	$ 147,506	$ 177,510

The next material refinancing to occur will be in 2006 when $149.1 million of long-term debt matures. At that time, InnVest will seek refinancing of the debt. InnVest will follow the same strategy in 2008, when $144.5 million of long-term debt matures.

The long-term land leases require minimum annual average lease payments as outlined above, expire between the years 2023 and 2088. There are also future rental charges that are determined as a percentage of revenues that are not included in the amount quoted.

Liquidity is generated from cash flow from hotel operations, the 50% interest in Choice Canada, bank operating lines available and by the ability to finance certain unencumbered or under-leveraged assets. Funds generated from operations in the quarter, which is typically the lowest quarter in terms of cash flow was $4.4 million or $0.063 per unit – basic (diluted – $0.063) as compared to $4.8 million or $0.072 per unit – basic (diluted – $0.072) for the same period in 2003.

The REIT is structured in a manner to segregate the ownership and operations of the hotel properties. The bricks and mortar are owned directly by the REIT and underlying corporate subsidiaries. The operations of the hotels and ownership of the chattels are held through partnership subsidiaries. The inter-entity relationships between the operations and ownership structures are governed by leasing and inter-entity debt agreements, the terms of which are at commercial rates considered acceptable for income tax purposes. The structure allows for the efficient access to cash generated through the operations of the hotels, and flow through of income and tax deductions to the REIT's unitholders.

Capital Resources

The REIT had unused operating loan availability of $15.1 million at March 31, 2004 and four hotel properties that remain unencumbered that could generate approximately $6.5 million in mortgage proceeds based on 50% loan to value. The REIT also has an unused acquisition facility of $40 million available to acquire hotel properties and an unused loan facility of $24 million available to fund 50% of capital expenditures incurred.

In addition to these, InnVest, at its own discretion, sets aside 4% of total hotel revenues for the purpose of the replacement of furniture, fixtures and equipment and for capital improvements. For 2004, it is forecasted that InnVest will spend approximately $9.0 million for this purpose. Capital expenditures committed and yet to be incurred at March 31, 2004 were $1.1 million.

During the three months ended March 31, 2004, the REIT distributed $11.6 million or $0.2813 per unit, of which $671 was distributed in units as part of the Distribution Reinvestment Plan, at the rate of $0.09375 per unit per month, with an additional 3% premium attached to the unit distribution. A regular monthly distribution of $0.09375 per unit for the month of March 2004 was paid in April 2004 and the distribution of $0.09375 per unit for the month of April 2004 was declared and will be payable on May 14, 2004.

The REIT has a $100 million mortgage loan facility with its main mortgage lender which is available to repay mortgage debts held by its various other lenders as they mature. The remaining availability of this facility is $74.5 million. Consequently, the REIT has minimal refinancing risk until 2006.

InnVest expects to meet its obligations and make cash distributions to its unitholders, based on cash flow to be generated from operations, its cash position including funds raised through capital market transactions and debt financing in the second quarter of 2004 and its borrowing capacity. Future growth is expected to be funded from cash on hand and borrowing capacity and through the issuance of trust units.

Issued Trust Units

As at March 31, 2004 a total of 41,359,535 units of the REIT were outstanding. There is only one class of trust units, with each unit eligible for one vote. During the three months ended March 31, 2004 units were issued under the trustee compensation plan, the distribution reinvestment plan ("DRIP") and through the conversion of convertible debentures as follows:

	Units	Amount
Balance at December 31, 2003	41,247,862	$ 389,310
Units issued under trustee compensation plan	4,678	53
Units issued under DRIP	60,484	671
Units issued upon conversion of debentures	46,511	505
Balance at March 31, 2004	41,359,535	$ 390,539
Activity subsequent to March 31, 2004		
Units issued under prospectus dated March 23, 2004	4,187,000	45,281
Units issued under DRIP	24,769	262
Units issued upon conversion of debentures	2,790	30
Balance at May 5, 2004	45,574,094	$ 436,112

There are a total of $74,500 in outstanding convertible unsecured subordinated debentures at March 31, 2004. These debentures are convertible into trust units at a strike price of $10.75, bear interest at 9.75% per annum payable semi-annually in arrears on June 30 and December 30 in each year and are due June 30, 2007. The total remaining trust units to be issued upon conversion for this series of debentures is 6,930,233.

On April 2, 2004 the REIT issued $57,500 of convertible unsecured subordinated debentures ("Series A Debentures"). These debentures are convertible into trust units at a strike price of $12.50, bear interest at 6.25% per annum payable semi-annually on April 15 and October 15 in each year, commencing October 15, 2004 and are due April 15, 2011. The total trust units to be issued upon conversion of the Series A Debentures is 4,600,000.

HISTORICAL QUARTERLY OPERATING RESULTS COMPARISON

InnVest has audited results for the year ended December 31, 2003 and the period from July 26, 2002 to December 31, 2002. The following is therefore a year-over-year comparison of hotel operating results for the quarters of 2003 and 2002 using unaudited results for each quarter and for the year ended December 31, 2002.

	March 31 2004	Dec. 31 2003	Sept. 30 2003	June 30 2003	March 31 2003	Dec. 31 2002	Sept. 30 2002(1)	June 30 2002(1)
Occupancy	**53.0%**	55.4%	71.0%	61.0%	53.6%	57.2%	78.8%	69.1%
Average daily rates	**$ 77.13**	$ 78.70	$ 87.20	$ 81.67	$ 77.79	$ 78.55	$ 88.73	$ 81.87
Revenue per available room	**$ 40.86**	$ 43.57	$ 61.91	$ 49.82	$ 41.69	$ 44.93	$ 69.92	$ 56.65
Room revenues	**$ 42,946**	$ 46,300	$ 65,786	$ 52,363	$ 43,335	$ 47,742	$ 74,304	$ 59,333
Total revenues	**$ 46,513**	$ 50,287	$ 70,306	$ 56,318	$ 47,305	$ 51,956	$ 79,435	$ 63,847
Hotel operating expenses and management fees	**$ 28,921**	$ 29,174	$ 32,327	$ 29,537	$ 29,406	$ 29,507	$ 35,715	$ 31,700
Gross operating profit	**$ 17,592**	$ 21,113	$ 37,979	$ 26,781	$ 17,899	$ 22,449	$ 43,720	$ 32,147
Gross operating profit margin	**37.8%**	42.0%	54.0%	47.6%	37.8%	43.2%	55.0%	50.4%
Property taxes, rent and insurance	**$ 6,133**	$ 5,823	$ 5,931	$ 5,865	$ 5,943	$ 5,545	$ 5,665	$ 5,778
Hotel operating income	**$ 11,459**	$ 15,290	$ 32,048	$ 20,916	$ 11,956	$ 16,904	$ 38,055	$ 26,369
Hotel operating income margin	**24.6%**	30.4%	45.6%	37.1%	25.3%	32.5%	47.9%	41.3%
Net income (loss)	**$ (2,868)**	$ (13,414)	$ 19,712	$ 6,914	$ (2,354)	$ 2,672	$ 17,715	$ –
Net income (loss) per unit								
– basic	**$ 0.117**	$ (0.374)	$ 0.431	$ 0.120	$ (0.106)	$ 0.021	$ 0.399	$ –
– diluted	**$ 0.117**	$ (0.374)	$ 0.410	$ 0.120	$ (0.106)	$ 0.021	$ 0.369	$ –
Distributable income	**$ 779**	$ 6,990	$ 21,337	$ 10,019	$ 1,109	$ 5,916	$ 19,347	$ –
Distributions paid	**$ 11,619**	$ 11,594	$ 11,577	$ 11,556	$ 11,553	$ 11,553	$ 4,596	$ –
Distributable income per unit								
– basic	**$ 0.019**	$ 0.170	$ 0.519	$ 0.244	$ 0.027	$ 0.144	$ 0.471	$ –
– diluted	**$ 0.019**	$ 0.170	$ 0.481	$ 0.244	$ 0.027	$ 0.144	$ 0.430	$ –
Trust units outstanding	**41,359,535**	41,247,862	41,179,554	41,096,747	41,082,720	41,075,910	41,075,910	–
Weighted average of trust units outstanding	**41,292,952**	41,214,890	41,140,075	41,087,537	41,079,756	41,075,910	41,075,910	–
Total assets	**$ 883,783**	$ 887,054	$ 904,148	$ 901,686	$ 912,501	$ 932,912	$ 948,760	$ –
Total long-term debt	**$ 309,009**	$ 310,926	$ 312,896	$ 314,236	$ 317,223	$ 319,462	$ 321,642	$ –

(1) The REIT began operations on July 26, 2002, therefore the net income, distributable income and the related per units amounts for the September 2002 quarter reflect the results for the period from July 26, 2002 to September 30, 2002 and are not available for the June 2002 quarter. Hotel operating revenues, expenses and income reflect operations for the June and September 2002 quarters have been adjusted for the current management fee structure.

InnVest's operations are seasonal and as such its results are not consistent throughout the year. 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. 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, corporate and administrative are fixed or virtually fixed. The effects of the events of 2003 are clearly evident when comparing 2003 quarters to the same periods in 2002.

The events of 2003 are considered short-term in nature and the results experienced in 2003 are not considered to be indicative of the stabilized performance of the hotel portfolio. The quarterly negative RevPAR variances on a year-over-year basis have continued to improve after the second quarter of 2003, as illustrated in the chart below:

Quarters Ended	% RevPAR Change from Prior Year
March 31, 2004	–2.0%
December 31, 2003	–3.0%
September 30, 2003	–11.4%
June 30, 2003	–12.1%

InnVest is expecting that the second quarter of 2004 will post an overall increase in RevPAR over the same period in 2003 and that this trend will continue for the balance of the year.

RISKS AND UNCERTAINTIES

The REIT is subject to the normal operating risks consistent with hotel ownership, including the risks described below. The REIT has risk management processes in place, and additionally mitigates business risks through restrictions, limitations and policies placed upon it by its trust indenture as outlined below.

Real Estate Investment Risks

One of the factors contributing to the REIT's income and its ability to make distributions to its Unitholders is its ability to operate the hotel portfolio in a manner that maintains or increases revenues and that generates sufficient hotel operating income.

Hotel Industry Risks

The REIT is subject to the operating risks inherent in the Canadian hotel industry, including:

- Cyclical downturns arising form changes in economic conditions;
- Competition from other hotels;
- Seasonal fluctuations in hotel operating income produced throughout the year;
- Changes in wages, prices, energy costs and construction and maintenance costs that may result from inflation, government regulation, changes in interest rates or currency fluctuations;
- Changes in the level of business, commercial and tourism travel;
- Increase in the supply of accommodations in local markets may adversely affect the results of operations; and
- Availability and pricing of financing for operating or capital requirements.

The REIT mitigates these risks by having a geographically diverse portfolio of hotels, which were acquired at below replacement costs, many of which are in markets with significant barriers to entry. The REIT maintains a $25 million operating line to ensure that the seasonal fluctuation in the generation of cash flow will not affect its ability to operate in the normal course of business.

The REIT also has significant buying power and negotiates favourable national contracts on a regular basis for operating supplies and renovation materials required, and hedges energy costs where deemed appropriate. The REIT's strategy is to maintain customers across several segments, including corporate, government, leisure, local, crew, sports and other groups, and not rely overly on any one segment.

The REIT is required to maintain, by its Trust Indenture, a conservative leverage of 50% or less of its gross asset value (which is defined as total assets before accumulated depreciation less future income tax liability). The vast majority of the REIT's mortgage debt is subject to fixed interest rates, which significantly reduces its exposure to changes in interest rates. The REIT also has the ability to fix interest rates at any time for debts currently subject to floating interest rates, and is in process of developing a longer term interest rate hedging program in order to minimize the interest rate risk on maturing debts.

Trust Indenture

InnVest is governed by its Trust indenture which is intended to mitigate risks by virtue of the restrictions, limitations and policies for financial and operational management. The following is a list of the restrictions, limitations, and policies:

- Eligible investments restricted primarily to hotels in Canada;
- A prohibition against investing in raw land for development and engaging in the development and construction of new real property;
- Individual property mortgages, or mortgages on a pool of properties, cannot exceed 75% of their respective values;
- A limitation on debt of 50% of gross asset value, before convertible debentures. The REIT's leverage at March 31, 2004 was 39.7%;
- A limitation on debt of 60% of gross asset value, including convertible debentures. The REIT's leverage, including convertible debentures, at March 31, 2004 was 49.0%;
- 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;
- A requirement to pay distributions of not less than 80% of the annual distributable income, equally on a monthly basis;
- Related party transactions require the approval of two-thirds of the independent trustees, and any transfers of real property between related parties requires an independent appraisal; and
- Any material change to the Master Hotel Management Agreement requires two-thirds approval of the independent trustees.

FINANCIAL ACCOUNTING CONSIDERATIONS

RELATED PARTY TRANSACTIONS

Franchise Business

InnVest owns 50% of Choice Canada. The other 50% is owned by Choice Hotels International, which is one of the largest hotel franchise companies in the world. Choice Canada earns franchise revenues by charging monthly royalty fees to hotel owners based on a percentage of the licenced hotels' revenues and by selling franchises. Under the terms of the joint venture agreement between Choice International and a subsidiary of the REIT, InnVest pays a below market royalty fee for its hotels that are franchised under the Choice hotel brands. This arrangement will remain in place for the duration of the joint venture until 2092. Royalty payments paid to Choice Canada by the REIT totaled $239 during the three months ended March 31, 2004.

Management Company

On July 26, 2002, the REIT 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 the REIT. The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire July 25, 2012. The Agreements are subject to non-competition arrangements. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross hotel revenues during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of $1.25 per unit. No management incentive fees were earned in the quarter.

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 Administrative Services Agreement) and project management and general contractor service fees related to hotel renovations managed by Westmont.

HEDGING TRANSACTIONS

InnVest's Ontario hotel properties have established fixed contracts with Ontario Power Generation for the provision of hydro electricity. The purpose of these contracts is to reduce the exposure InnVest has to hydro prices in the province of Ontario. The energy contracts set the price of electricity at 52.45 cents/MWh for quantities contracted for. The contracts were established on April 26, 2002 and have a length of 3 years. In the first year of the contract, 100% of the expected usage was contracted for at the fixed price. In the second and third year of the contract, the quantity contracted for at fixed prices declines to 75% and 50% of the expected usage respectively. InnVest pays market rates for the amount of electricity it consumes that are not contracted for at fixed prices. InnVest accounts for this hedge by recording the contracted price of electricity in its accounts for quantities up to the minimum contracted amounts. Electricity usage above this amount is recorded at the market rate. If this arrangement was terminated, the REIT would be subject to the market fluctuations in electricity prices for its Ontario hotels for its entire electricity consumption as opposed to the non-hedged portion.

CRITICAL ACCOUNTING ESTIMATES

A description of the REIT's significant accounting policies is summarized in Note 1 to the consolidated financial statements. Generally accepted accounting principles require management to make 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 revenues and expenses during the reporting period. Management uses its judgement 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. The actual results for the REIT may materially differ, if management were to use different estimates and assumptions. The following accounting estimates are what management considers to be the most critical in the preparation of the REIT's consolidated financial statements.

Hotel properties

Hotel properties, consisting of land, buildings and furniture, fixtures and equipment, represent the vast majority of the REIT's assets. Depreciable assets within hotel properties again represent the vast majority of the assets of the REIT and the depreciation method and estimates of useful life selected could have a material impact on the REIT's operating results. InnVest depreciates these assets using the straight-line method over their estimated economic or useful lives, which are estimated at 40 years for buildings, up to seven years for building renovations, up to seven years for furniture and fixtures and 10 years for paving.

Valuation of hotel properties

Generally accepted accounting principles require that long-lived assets be written down to fair value at such time that it is determined that they have been permanently impaired. In order to determine if any of the hotel properties have been permanently impaired, future cash flows are forecasted for each hotel using its most recent performance and expected trends in each specific market, such as new or expected new hotel supply, local and macroeconomic conditions. Then the undiscounted cash flows are aggregated and compared to the net book value of each hotel. An impairment in value will be recorded if the aggregate undiscounted cash flows are less than the net book value for a specific hotel. Each hotel in the portfolio is currently generating and is forecasted to continue to generate positive operating cash flow sufficient to conclude that no impairment of value exists at the present time.

Income taxes

The REIT's corporate subsidiaries are subject to tax on their taxable income. Income taxes are accounted for using the liability method, whereby future income tax assets and liabilities are determined based on differences between the carrying amount of the balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse. The book value of the assets of the REIT's subsidiaries are approximately $395.9 million higher than their respective tax values. Income taxes will be payable if assets that contribute to this difference are sold at amounts higher than their tax base. The REIT has recorded a future income tax liability of $134.8 million related to these temporary differences, which will reverse over time.

Fair value of debt instruments

Long-term debt that was assumed on the acquisition of hotel properties was recorded at its fair value on the date of acquisition, July 26, 2002. The fair value was determined by discounting expected payments on the debts at interest rates being offered to the REIT for debt of the same remaining maturities. In determining interest rates offered to the REIT, management uses the government of Canada bench mark bond yields for the appropriate time period, then adds the expected spread currently being offered to it by various lenders. The difference between the fair value and the face value of the long-term debt was estimated at $2.7 million, was recorded as an increase to long-term debt and is being amortized over approximately two years from the acquisition date through a reduction to interest expense at a rate of approximately $342 per quarter and will be fully amortized prior to the end of the third quarter in 2004.

CHANGES IN ACCOUNTING POLICIES

Impairment of value of hotel properties

Effective January 1, 2004, InnVest adopted the new CICA standard with respect to accounting for the impairment of long-lived assets and it has been applied prospectively. The new requirement is that long-lived assets be reviewed by management for impairment whenever any events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. The adoption of this new standard did not have an impact on InnVest's results from operations or financial position.

Disposal of long-lived assets and discontinued operations

At the beginning of 2004 the REIT also adopted the new CICA standard with respect to the disposal of long-lived assets and discontinued operations, whereby provided certain criteria are met, long-term assets and related assets and liabilities expected to be disposed of by management will be classified as held for sale. The adoption of this new standard did not have an impact on InnVest's results from operations or financial position.

Hedging relationships

Effective January 1, 2004, InnVest adopted the new CICA standard with respect to accounting for hedging transactions. The new standard specifies the requirements that must be in place in regards to a hedge transaction in order for the transaction to be accounted for as a hedge. The adoption of this new standard did not have an impact on InnVest's results from operations or financial position.

PENDING CHANGES IN ACCOUNTING POLICIES

Liabilities and equity presentation

Effective for periods beginning on or after November 1, 2004, the CICA has issued new guidance with respect to accounting for financial instruments. This new standard requires certain financial instruments that may be settled in cash or by an issuer's own equity instrument, at the issuer's discretion, by a variable number of the issuer's own equity instruments to be presented as liabilities. The adoption of this new standard will have the effect that the REIT's convertible debentures will have to be reclassified from equity to liabilities and that interest on the debentures will be deducted in the calculation of net income or loss. The new standard will not have any effect on net income or loss per unit as the interest expense on the convertible debentures is currently deducted from earnings for the purpose of the per unit calculations.

OUTLOOK

Since July 2003, operating levels continued to rebound from the negative variances experienced on a year- over-year basis. We expect that this positive trend will continue into the second quarter of 2004 and that in each of the remaining quarters InnVest will experience revenue growth over the previous year.

Industry trends in the first quarter of 2004 indicate that the recovery in the Canadian hospitality industry is underway. Although there continues to be weakness in certain markets, the overall market is improving, particularly in the areas which were most impacted by the events of 2003. While it is still early in the recovery, our expectation is that RevPAR in 2004 will show improvement over 2003. For the second quarter of 2004 InnVest expects to post an overall increase in RevPAR over the same period in 2003.

As the Canadian hotel industry continues to recover, our priorities are to make selective acquisitions in the limited service and mid-scale with food and beverage sectors that are accretive to earnings and cash flow, to maximize revenues through room sales and marketing initiatives, while maintaining room rates and to control operating costs. As the industry continues to recover, InnVest is well positioned due to the geographical, customer, and brand diversity of its portfolio.

FORWARD–LOOKING INFORMATION

The preceding management's discussion and analysis contains forward looking or outlook information with respect to InnVest. Because forward-looking information addresses future events and conditions, it involves risk and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking information. These risks and uncertainties are discussed earlier in management's discussion and analysis, as well as the REIT's annual information form.

InnVest disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities laws.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)	**March 31, 2004**	December 31, 2003
	(Unaudited)	
ASSETS		
Current Assets		
Cash	**$ 301**	$ 3,958
Accounts receivable	**8,066**	7,827
Prepaid expenses and other assets	**4,644**	3,747
	13,011	15,532
Restricted cash	**13,359**	13,381
Hotel properties *(Note 2)*	**822,105**	828,262
Licence contracts (accumulated amortization $2,216 – December 31, 2003 – $1,887)	**24,104**	24,433
Deferred financing and other assets *(Note 3)*	**11,204**	5,446
	$ 883,783	$ 887,054
LIABILITIES		
Current Liabilities		
Bank indebtedness *(Note 4)*	**$ 9,927**	$ –
Accounts payable and accrued liabilities	**22,728**	17,197
Distributions payable	**3,874**	3,867
Acquisition related liabilities	**111**	759
Current portion of long-term debt *(Note 5)*	**6,786**	7,043
	43,426	28,866
Long-term debt *(Note 5)*	**302,223**	303,883
Future income tax liability	**134,815**	135,441
	480,464	468,190
EQUITY		
Unitholders' equity	**328,044**	343,240
Convertible debentures *(Note 7)*	**75,275**	75,624
	403,319	418,864
	$ 883,783	$ 887,054

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

Consolidated Statements of Net Income

Three months ended (in thousands of dollars, except per unit amounts) (Unaudited)	**March 31, 2004**	March 31, 2003
Hotel revenues	**$ 46,513**	$ 47,305
Hotel expenses		
Operating expenses	**27,351**	27,805
Property taxes, rent and insurance	**6,133**	5,943
Management fees	**1,570**	1,601
	35,054	35,349
Hotel operating income	**11,459**	11,956
Other (income) and expenses		
Interest on mortgages	**5,343**	5,600
Corporate and administrative	**924**	746
Capital tax	**490**	495
Franchise business income	**(308)**	(217)
Other income	**(29)**	(53)
Depreciation and amortization	**8,228**	7,964
	14,648	14,535
Loss before income tax expense	**(3,189)**	(2,579)
Income tax expense (recovery)		
Current	**305**	317
Future	**(626)**	(542)
	(321)	(225)
Net loss	**$ (2,868)**	$ (2,354)
Net loss per unit – basic and diluted *(Note 8)*	**$ (0.117)**	$ (0.106)

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

Consolidated Statements of Unitholders' Equity

(in thousands of dollars)	Units in $	Net Income	Distributions	Executive Compensation	Convertible Debentures Interest and Accretion	Total
Balance December 31, 2002	$ 387,744	$ 20,387	$ (20,000)	$ 72	$ (3,170)	$ 385,033
CHANGES DURING THE PERIOD						
Net loss	–	(2,354)	–	–	–	(2,354)
Unit distributions	–	–	(11,553)	–	–	(11,553)
Costs incurred regarding the distribution reinvestment plan *(Note 6)*	(19)	–	–	–	–	(19)
Executive and trustee compensation *(Note 6)*	60	–	–	42	–	102
Convertible debentures interest and accretion	–	–	–	–	(1,984)	(1,984)
Ended Balance March 31, 2003	$ 387,785	$ 18,033	$ (31,553)	$ 114	$ (5,154)	$ 369,225
Balance December 31, 2003	$ 389,310	$ 31,245	$ (66,280)	$ 72	$ (11,107)	$ 343,240
CHANGES DURING THE PERIOD						
Net loss	–	(2,868)	–	–	–	(2,868)
Unit distributions	–	–	(11,619)	–	–	(11,619)
Distribution reinvestment plan units issued *(Note 6)*	671	–	–	–	–	671
Conversion of debentures	505	–	–	–	–	505
Executive and trustee compensation *(Note 6)*	53	–	–	42	–	95
Convertible debentures interest and accretion	–	–	–	–	(1,980)	(1,980)
Ended Balance March 31, 2004	$ 390,539	$ 28,377	$ (77,899)	$ 114	$ (13,087)	$ 328,044

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

Consolidated Statements of Cash Flows

Three months ended (in thousands of dollars) (Unaudited)	**March 31, 2004**	March 31, 2003
OPERATING ACTIVITIES		
Net loss	**$ (2,868)**	$ (2,354)
Add (deduct) items not affecting operations		
Depreciation and amortization	**7,853**	7,598
Future income tax recovery	**(626)**	(542)
Non-cash executive and trustee compensation	**72**	102
Amortization of fair value debt adjustment	**(342)**	(341)
Amortization of deferred financing costs	**375**	366
Changes in non-cash working capital	**4,060**	(2,616)
	8,524	2,213
FINANCING ACTIVITIES		
Repayment of long-term debt	**(7,675)**	(1,898)
Proceeds from long-term debt	**6,100**	–
Costs incurred regarding the distribution reinvestment plan	**–**	(19)
Unit distributions	**(10,941)**	(11,553)
Increase in bank indebtedness	**9,927**	–
Changes in non-cash working capital related to financing activities	**(289)**	(416)
Deferred financing	**(307)**	–
Convertible debentures interest	**(1,825)**	(1,828)
	(5,010)	(15,714)
INVESTING ACTIVITIES		
Capital expenditures on hotel properties	**(1,367)**	(2,020)
Acquisition costs	**(5,826)**	–
Decrease in restricted cash	**22**	128
	(7,171)	(1,892)
Decrease in cash during the period	**(3,657)**	(15,393)
Cash, beginning of period	**3,958**	26,730
Cash, end of period	**$ 301**	$ 11,337
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 5,826**	$ 5,930
Cash paid for income taxes (including capital tax)	**$ 651**	$ 1,025

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

March 31, 2004 (all 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 was established pursuant to a declaration of trust dated January 1, 2002. On July 25, 2002, the REIT raised $300,000 (before issue costs) by issuing units on the Toronto Stock Exchange. These proceeds together with the issue of additional units and convertible debentures were utilized to acquire a portfolio of 114 Canadian hotels with 11,551 guest rooms operated under international brands.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these financial statements are consistent with those used in the annual consolidated financial statements, except for the changes in accounting policies noted below. They do not include all the information and disclosure required by Canadian GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements.

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 the year.

CHANGES IN ACCOUNTING POLICIES

Impairment of long-lived assets

Effective January 1, 2004, the REIT adopted the new CICA standard with respect to accounting for the impairment of long-lived assets, which has been applied on a prospective basis. This new standard requires that long-lived assets be reviewed by management on a regular basis for impairment to determine if any events or changes in circumstances exist that would indicate that the carrying amount of an asset may not be recoverable over time. If it is determined that the net recoverable amount of a hotel property is less than its carrying value, the hotel property is written down to its fair value. Net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the hotel property. The adoption of this new standard did not have an impact on the REIT's results from operations or financial position.

Hedging relationships

Effective January 1, 2004, InnVest adopted the new CICA guideline with respect to accounting for hedging relationships. The guideline increases the documentation and monitoring required for hedging strategies to be eligible for hedge accounting treatment. The REIT currently has a fixed price contract in place which hedges the cash flows related to utility costs on certain of its properties. The REIT had the appropriate documentation in place for this hedge at the inception of the hedge and throughout the three-month period ended March 31, 2004. The adoption of this new standard did not have an impact on the REIT's results from operations or financial position.

2. HOTEL PROPERTIES

	Cost	**Accumulated Depreciation**	**March 31, 2004 Net Book Value**	Dec. 31, 2003 Net Book Value
Land	**$ 58,801**	**$ –**	**$ 58,801**	$ 58,801
Buildings	**756,246**	**32,048**	**724,198**	728,748
Furniture and equipment	**56,520**	**17,414**	**39,106**	40,713
	$ 871,567	**$ 49,462**	**$ 822,105**	$ 828,262

3. DEFERRED FINANCING AND OTHER ASSETS

	Cost	Accumulated Depreciation	March 31, 2004 Net Book Value	Dec. 31, 2003 Net Book Value
Deferred financing	**$ 7,595**	**$ 2,461**	**$ 5,134**	$ 5,217
Acquisition costs	**5,931**	**–**	**5,931**	105
Other	**163**	**24**	**139**	124
	$ 13,689	**$ 2,485**	**$ 11,204**	$ 5,446

4. BANK INDEBTEDNESS

	March 31, 2004	December 31, 2003
Operating loan	**$ 9,000**	$ –
Bank overdraft	**927**	–
	$ 9,927	$ –

The $25 million operating loan facility bears interest at Canadian bank prime plus 0.5%, is secured by nine hotel properties and is payable on demand.

5. LONG-TERM DEBT

	March 31, 2004	December 31, 2003
Mortgages payable	**$ 309,009**	$ 310,926
Less: current portion	**6,786**	7,043
Total long-term debt	**$ 302,223**	$ 303,883

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At March 31, 2004, long-term debt had a weighted average interest rate of 7.3% (December 31, 2003 – 7.4%). The long-term debt is repayable in blended monthly payments of principal and interest totalling $2,336 (December 31, 2003 – $2,528) per month, and matures at various dates from May 1, 2004 to July 26, 2008.

Scheduled repayment of long-term debt is as follows:

2004 (remainder of the year)	$ 5,082
2005	7,179
2006	149,139
2007	3,156
2008	144,453
	$ 309,009

The current portion of long-term debt on the balance sheet is based on the twelve months ended March 31, 2005, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of the REIT's long-term debt at March 31, 2004 was approximately $316,466 (December 31, 2003 – $314,604). This estimate was determined by discounting expected cash flows at the interest rates currently being offered to the REIT for debt of the same remaining maturities.

Long-term debt includes $51,724 (December 31, 2003 – $39,191) of mortgages payable, which are subject to floating interest rates. Interest expense will increase by $517 for every 1% increase in the base Bankers' Acceptance rate.

The REIT has a $100,000 mortgage loan facility with its main mortgage lender of which $74,524 is available to refinance mortgage debts held by its various other lenders, as they mature.

6. UNITHOLDERS' EQUITY

The REIT is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from the REIT. All units are of the same class with equal rights and privileges.

	Units	Amount
Balance at December 31, 2002	41,075,910	$ 387,744
Units issued under trustee compensation plan	6,810	60
Costs incurred regarding the distribution reinvestment plan	–	(19)
Balance at March 31, 2003	41,082,720	$ 387,785
Balance at December 31, 2003	41,247,862	$ 389,310
Units issued under trustee compensation plan	4,678	53
Units issued under distribution reinvestment plan	60,484	671
Units issued on conversion of debentures	46,511	505
Balance at March 31, 2004	41,359,535	$ 390,539

TRUSTEE COMPENSATION PLAN

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then current market price of the units). The REIT has set aside 100,000 units in reserve for this purpose. During the three months ended March 31, 2004, there were 4,678 units (March 31, 2003 – 6,810 units) issued under the Trustee Compensation Plan.

EXECUTIVE COMPENSATION PLAN

The senior executives participate in the executive compensation plan under which units are granted by the Board of Trustees from time to time. The REIT has reserved a maximum of 1,000,000 units for issuance under the plan. A unit granted through the plan entitles the holder to receive on the vesting date the then current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into REIT units. The payment will be satisfied through the issuance of units.

On July 17, 2002, the Board of Trustees approved the granting of 49,500 units to the senior executives for services rendered. The units granted on July 17, 2002 vest equally over a three year period on each annual anniversary date of grant. On July 17, 2003, 16,500 of the originally granted units along with 1,983 units accumulated from distributions vested.

The following table summarizes the status of the executive compensation plan at March 31, 2004:

Date	Unvested Executive Units	Units Accumulated from Distributions	Total Units
July 17, 2002	49,500	8,924	58,424
July 17, 2003 – units vested	(16,500)	(1,983)	(18,483)
	33,000	6,941	39,941

DISTRIBUTION REINVESTMENT PLAN ("DRIP")

The REIT has a DRIP whereby eligible Canadian unitholders may elect to have their distributions of income from the REIT automatically reinvested in additional units. Unitholders who so elect will receive a further bonus distribution of units equal in value to 3% of each distribution that was reinvested.

7. CONVERTIBLE DEBENTURES

The convertible debentures bear interest at the rate of 9.75% per annum payable semi-annually in arrears and mature on June 30, 2007. Each $1 principal amount of convertible debentures is convertible at the option of the holder into 93.0233 units (representing a conversion price of $10.75 per unit). The convertible debentures are redeemable, in whole or from time to time in part, on and after July 1, 2005 at the option of the REIT, provided that the volume-weighted average trading price of the units for a stipulated period prior to the date on which the notice of redemption is given exceeds 115% of the conversion price. The REIT has the option to satisfy its obligation to pay the principal amount of the convertible debentures due at maturity or upon redemption, in whole or in part, by issuing the number of units equal to the principal amount of convertible debentures then outstanding divided by 95% of the volume-weighted average trading price of the units for a stipulated period prior to the date of redemption or maturity, as applicable. During the three months ended March 31, 2004, 46,511 units were issued for debentures at a conversion price of $10.75 per unit.

In accordance with Canadian GAAP, the holder conversion option was valued separately from the convertible debentures at $2,850, being the estimated fair market value of the option on the date the security was issued. The debenture discount equal to the value of the option is being accreted to Unitholders' Equity over the term of the convertible debentures. During the three months ended March 31, 2004, $5 was reclassified for the accretion attributable to the converted debentures.

The convertible debenture balance has been recorded as equity as the REIT has the ability to satisfy its obligations (principal and interest) under the terms of such instrument through the issue of units.

8. PER UNIT INFORMATION

Net income per unit calculations are based on the following:

Three months ended March 31,		**2004**		2003
		Weighted Average Units		Weighted Average Units
Net loss	**$ (2,868)**	**41,292,952**	$ (2,354)	41,079,756
Convertible debenture interest and accretion	**(1,980)**	**–**	(1,984)	–
Net loss – basic and diluted	**$ (4,848)**	**41,292,952**	$ (4,338)	41,079,756

Distributable income per unit calculations are based on the following (Note 9):

Three months ended March 31,		**2004**		2003
		Weighted Average Units		Weighted Average Units
Distributable income – basic	**$ 779**	**41,292,952**	$ 1,109	41,079,756
Dilutive effect of executive compensation plan	**–**	**14,116**	–	7,268
Distributable income – diluted	**$ 779**	**41,307,068**	$ 1,109	41,087,024

The convertible debentures have been excluded from certain diluted calculations because the impact of this conversion would not be dilutive.

9. DISTRIBUTABLE INCOME

Distributions to unitholders are computed based on distributable income as defined by the Declaration of Trust.

Distributable income means net income in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation and amortization, amortization of fair value debt adjustment and future income tax recovery, excluding any gains or losses on the disposition of real property and future income taxes, deducting the amount calculated, at 4% of hotel revenues, for the reserve for the replacement of furniture, fixtures and equipment and capital improvements, and the interest on convertible debentures that is not included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion.

Three months ended March 31,	**2004**	2003
Net loss	**$ (2,868)**	$ (2,354)
Add (deduct)		
Depreciation and amortization	**8,228**	7,964
Amortization of fair value debt adjustment	**(342)**	(341)
Future income taxes	**(626)**	(542)
Reserve for capital and FF&E	**(1,860)**	(1,892)
Non-cash executive and trustee compensation	**72**	102
Interest on convertible debentures	**(1,825)**	(1,828)
	3,647	3,463
Distributable income	**779**	1,109
Distributions in excess of distributable income	**10,840**	10,444
Distributions	**$ 11,619**	$ 11,553
Distributable income per unit – basic	**$ 0.019**	$ 0.027
– diluted	**$ 0.019**	$ 0.027

Distributable income is a measure of cash flow that is not required under Canadian generally accepted accounting principles, and, accordingly, may not be comparable to similar measures used by other issuers. Distributable income per unit has been calculated on a basis consistent with that prescribed by Canadian generally accepted accounting principles for calculating earnings per unit.

10. MANAGEMENT AGREEMENTS

On July 26, 2002, the REIT entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement ("the Agreements") with Westmont Hospitality Management Canada Limited ("Westmont"). Westmont is controlled by a minority unitholder of the REIT. The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval by the REIT. The Agreements will expire July 25, 2012. The Agreements provide for the payment of an annual management fee to Westmont in an amount equal to 3.375% of gross revenues during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of $1.25 per unit. No management incentive fees were paid in the period.

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 Administrative Services Agreement) and project management and general contractor service fees related to hotel renovations managed by Westmont.

During the three months ended March 31, 2004 and 2003, the fees charged to the REIT pursuant to the Agreements were as follows:

Three months ended March 31,	**2004**	2003
Management fees	**$ 1,570**	$ 1,601
Accounting services (included in hotel operating expenses)	**438**	429
Administration services (included in corporate and administrative services)	**124**	112
Project management and general contractor services (capitalized in hotel properties)	**87**	98
	$ 2,219	$ 2,240

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT, were $36 (March 31, 2003 – $81). Included in accounts payable and accrued liabilities are amounts outstanding at March 31, 2004 totalling $780 (December 31, 2003 – $670).

11. SEGMENTED FINANCIAL INFORMATION

The REIT operates hotel properties throughout Canada. Information related to these properties by geographic segment is presented below. The REIT primarily evaluates operating performance based on hotel operating income. All key financing, investing and capital allocation decisions are centrally managed.

	Western	Ontario	Quebec	Atlantic	Total
Three months ended March 31, 2004					
Hotel revenues	**$ 5,462**	**$ 25,463**	**$ 11,005**	**$ 4,583**	**$ 46,513**
Hotel expenes	**4,418**	**19,015**	**8,204**	**3,417**	**35,054**
Hotel operating income	**$ 1,044**	**$ 6,448**	**$ 2,801**	**$ 1,166**	**$ 11,459**
Three months ended March 31, 2003					
Hotel revenues	$ 5,110	26,165	$ 11,507	$ 4,523	$ 47,305
Hotel expenes	4,393	19,332	8,316	3,308	35,349
Hotel operating income	$ 717	$ 6,833	$ 3,191	$ 1,215	$ 11,956
Capital expenditures					
Three months ended March 31, 2004	**$ 133**	**$ 233**	**$ 707**	**$ 294**	**$ 1,367**
Three months ended March 31, 2003	$ 267	$ 1,313	$ 432	$ 8	$ 2,020
Hotel properties					
March 31, 2004	**$ 64,934**	**$ 100,136**	**$ 468,283**	**$ 188,752**	**$ 822,105**
December 31, 2003	$ 65,538	$ 471,764	$ 190,184	$ 100,776	$ 828,262

12. SUBSEQUENT EVENT

On April 5, 2004 the REIT purchased the Holiday Inn Dartmouth, Nova Scotia for $8,800. The acquisition was financed, on an interim basis through the REIT's operating loan.

On April 7, 2004 the REIT purchased eight Holiday Inn hotels located in Ontario and one Quality Hotel located in Saskatchewan (the "Acquired Hotels"). The aggregate purchase price for the eight hotels was $98.1 million. One additional Ontario hotel, for $13.4 million is scheduled to close July 2004. Some of the investors in the vendors are affiliates with Westmont. In addition, Westmont Hospitality Management Ltd., an affiliate of Westmont, is currently the manager of the Acquired Hotels.

In the second quarter of 2004, the REIT issued 4,187,000 units for estimated net proceeds of $45,281 and $57,500 of 6.25% convertible subordinated debentures for estimated net proceeds of $54,944. The proceeds of these issues were used in part to fund the acquisition of the Acquired Hotels.

The REIT secured two pools of mortgage financing with each pool secured by five of the acquired or to-be-acquired hotels. The first mortgage pool financed amount is $31.1 million and was fully funded in April 2004. The mortgages bear interest at an annual rate of 6.65% compounded semi-annually and are payable in blended monthly payments of interest and principal of $226 amortized over 21.4 years during its 10-year term. The second pool-financed amount is $30.3 million, of which $23.8 million was advanced in April 2004 with the remaining $6.5 million scheduled to be advanced in July 2004, when the final hotel acquisition is expected to close. These mortgages bear interest at an annual rate of 6.60% compounded semi-annually and are payable in blended monthly payments of interest and principal of $204 amortized over 25 years during its 10-year term.

13. COMPARATIVE INFORMATION

Certain prior year amounts have been reclassed to conform to current presentation.

EXECUTIVE OFFICE

5090 Explorer Drive
7th Floor
Mississauga, Ontario
L4W 4T9
Phone: 905-206-7100
Fax: 905-206-7114
Web: www.innvestreit.com

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario
M5J 2Y1
Phone: 1-800-564-6253

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: INN.UN