

Q2



2007 Second Quarter Report to Unitholders. For the three and six months ended June 30, 2007.

Letter to Unitholders

Strong performance in the Western and Atlantic regions, allowed InnVest to grow its RevPAR in the second quarter on a same hotel basis, while the contribution from the hotels acquired in 2006 during or after the second quarter allowed InnVest to grow its distributable income

InnVest continued to pursue acquisition opportunities entering into a contract to purchase three hotels and develop a fourth, with a total of 455 rooms for a combined purchase price of \$48.3 million plus transaction costs and construction costs of \$14.0 million in the first and second quarters of 2007. The transaction to acquire these new build hotel properties will close in stages as the construction of each hotel is completed, which is scheduled during the third and fourth quarters. The hotels to be acquired include a 117 room Staybridge Suites located in London, Ontario, a 116 room Holiday Inn Express located in North Bay, Ontario and a 116 room Staybridge Suites located in Guelph, Ontario, while the hotel under development in a 106 room Staybridge Suites in Oakville, Ontario. On July 20, 2007, the REIT closed on the Staybridge Suites in London, Ontario at a cost of \$17.0 million plus transaction costs.

On July 12, 2007 InnVest, in partnership with Cadbridge Investors LP (“Cadbridge”), a joint venture entity between affiliates of Cadim, a division of the Caisse de Dépôt et Placement du Québec and an affiliate of InnVest’s hotel manager, Westmont Hospitality Canada Limited (“Westmont”), announced a take-over bid for all of the outstanding units of Legacy Hotels Real Estate Investment Trust (“Legacy”) at a price of \$12.60 per unit. The take-over bid will be effected by LGY Acquisition LP, a newly-formed limited partnership, owned by InnVest and Cadbridge in which InnVest has an approximate 26% interest. Upon the successful completion of the acquisition of 100% of Legacy’s outstanding units, InnVest and Cadbridge will reorganize Legacy’s assets such that

InnVest will become the owner of the following eleven first class hotels: The Fairmont Palliser, Sheraton Suites Calgary Eau Claire, Delta Calgary Airport, Fairmont Hotel Macdonald, Delta Winnipeg Hotel, Delta Ottawa Hotel and Suites, Delta Centre-Ville, Delta Beauséjour, Delta Prince Edward, Delta Barrington and the Delta Halifax (collectively the “Portfolio”). This reorganization is expected to be completed within 30 days of LGY Acquisition LP acquiring 100% of Legacy’s outstanding units and, until such time, InnVest will remain an approximate 26% owner in LGY Acquisition LP.

The purchase price, including the assumption of existing debt, in respect of the eleven hotels that InnVest will ultimately acquire, is approximately \$652 million (\$178 per room) prior to closing and transaction costs.

Upon the completion of the portfolio acquisition, InnVest’s total portfolio will increase to 147 properties, totaling 19,265 rooms across Canada.

The acquired hotels are leading properties in their respective markets and include a number of historical landmarks. The majority of the acquired hotels have considerable meeting space, multiple food and beverage facilities and are ideally located in downtown city centre locations within very close proximity to a number of demand drivers, including but not limited to shopping and recreation areas, businesses, restaurants, convention centres, historical sites and casinos.

Letter to Unitholders

Details of the hotel properties being acquired by InnVest are as follows:

Hotel	Location	Rooms
The Fairmont Palliser	Calgary, Alberta	405
Sheraton Suites Calgary Eau Claire	Calgary, Alberta	323
The Fairmont Hotel Macdonald	Edmonton, Alberta	199
Delta Calgary Airport	Calgary, Alberta	296
Delta Winnipeg Hotel	Winnipeg, Manitoba	393
Delta Ottawa Hotel and Suites	Ottawa, Ontario	328
Delta Centre-Ville	Montréal, Québec	711
Delta Beauséjour	Moncton, New Brunswick	310
Delta Prince Edward	Charlottetown, Prince Edward Island	211
Delta Barrington	Halifax, Nova Scotia	200
Delta Halifax	Halifax, Nova Scotia	296
Total		3,672

In the second quarter, the REIT completed an early extension of \$147.7 of mortgage debt with a weighted average interest rate of 7.4%, that was to have matured in July 2008, fixing the interest rate on \$130 million at 5.8% for a blended interest rate of 6.2% per annum for a period of seven years and maintained floating rate debt of \$17.7 million, which at current rates bears interest of approximately 6.3% per annum. As part of this early extension, InnVest increased its proceeds by \$25.9 million, which were used to repay the operating loan balance and to fund acquisitions.

The REIT has unused operating loan availability of \$25 million and eight hotel properties which remained unencumbered. The REIT estimates that the unencumbered hotels could generate approximately \$45 million in mortgage proceeds. The REIT also has an unused acquisition facility of \$40 million available to acquire hotel properties and an unused loan facility of \$29.1 million available to fund capital expenditures.

Continuing with its strategy of investing in its hotels, InnVest deployed approximately \$7.6 million for capital asset improvements during the first quarter.

Financial Review

For the quarter, InnVest's revenue per available room ("RevPAR") improved by 5.6% as RevPAR increased to \$66.83. Average daily rates increased by 5.6%, as occupancy remained constant. This is primarily due to the nature of the hotels we acquired in 2006, which typically yield higher rates than our Base Portfolio of hotels.

Room revenues for the three months ended June 30, 2007 were \$94.1 million, 12.1% higher than the \$84.0 million generated for the same period in 2006. The increase

of \$10.1 million reflects the \$9.6 million in revenues from the hotels acquired in 2006 after the end of the first quarter. The balance of the \$542 improvement reflects an overall increase in room revenue of 0.7% in the Base Portfolio. There were increases in the Western and Atlantic regions with the largest percentage and dollar increase experienced in the Western region.

Hotel expenses for the three months ended June 30, 2007 increased by \$12.6 million or 19.5% when compared to the same period in 2006. This increase reflects \$11.2 million in expenses incurred in the hotels acquired in 2006, which were not owned for the entire comparative period. The remaining \$1.4 million related to the Base Portfolio represents a 2.3% increase over the same period in 2006.

Distributable income grew to \$19.9 million for the three months ended June 30, 2007, an improvement of \$1.2 million over the distributable income of \$18.7 million experienced in the same period in 2006. Distributable income per unit on a diluted basis decreased slightly to \$0.335 from \$0.349.

The REIT's cash position at June 30, 2007 was \$8.7 million, of which \$567 is restricted under the REIT's trust indenture for the replacement of furniture, fixtures, and equipment and for capital improvements. Financial leverage is at 41.0% debt to gross asset value excluding convertible debentures and 50.5% including convertible debentures.

In 2006, 40.5% of the distributions made during that year were not taxable to unitholders. For calendar 2007, the REIT estimates that approximately 40% of unitholder distributions will not be taxable to unitholders.

Outlook

InnVest experienced significant improvements in RevPAR in its hotel in the Western and Atlantic regions, which allowed InnVest to grow its RevPAR in the second quarter on a same hotel basis, while the contribution from the hotels acquired in 2006 during or after the second quarter allowed InnVest to grow its funds from operations and distributable income. Further increases are expected for the remainder of the year as InnVest approaches the highest cash generating third quarter and benefits from the hotels acquired in the third quarter of 2006.

The hotels to be acquired through the participation in the acquisition of Legacy will expand InnVest's presence in Western Canada, which will contribute to growth in funds from operations and distributable income on an absolute basis immediately and on a per unit basis annually in the next 12-24 months. Given that the acquisition is scheduled to close late in the third quarter or early in the fourth quarter, the contribution on a per unit basis for 2007 is expected to be dilutive due to the seasonality inherent in the hotel business.

The Canadian hospitality industry is performing as anticipated with RevPAR growth in all regions and particularly strong growth in western provinces. PKF Consulting Inc., ("PKF") lodging industry experts continue to forecast a 4% increase in RevPAR in 2007 due to the growth in demand continuing to outpace supply. Accordingly, InnVest is expecting growth within its Base Portfolio and from its 2006 Acquisitions. InnVest's hotels located in certain markets, such as Windsor, Oshawa, the GTA and Montréal, have experienced declines in room revenue in the second quarter. In response, concentrated sales efforts and additional cost control measures are being undertaken in these markets. This has been somewhat offset by strong performance in many other markets of Ontario and Québec where the industry fundamentals remain strong, further demonstrating the benefit of the geographic diversity of InnVest's hotel portfolio.

InnVest expects to continue to benefit from the anticipated growth in the hospitality industry, our ability to manage costs, our ability to capitalize on acquisition opportunities and re-financing activities completed in the second quarter.



Kenneth Gibson
President and Chief Executive Officer
August 10, 2007

Management's discussion and analysis

Second quarter 2007 financial and operating highlights

- RevPAR growth was 0.7% during the second quarter of 2007 for InnVest's portfolio of hotels on a same hotel basis;
- Net loss from continuing operations was \$113.5 million in the second quarter. After eliminating the impact of the reversal of future income tax liabilities recorded in the first quarter of \$115.4 million, and recording an additional future income tax liability resulting from changes in the income tax legislation in the second quarter, the net income from continuing operations was \$9.2 million, a decrease of \$256 over the comparable net income from continuing operations experienced for the same period in 2006;
- Distributable income grew 6.2% to \$19.9 million in the quarter, an increase of \$1.2 million over the same period in 2006. Distributable income per unit on a diluted basis decreased slightly to \$0.335 from \$0.349;
- Payout ratio, distributions divided by distributable income on a trailing twelve month basis, decreased slightly by 0.3% points from 96.9% at March 31, 2007 to 96.6% as a result of the improvements in distributable income in the second quarter outpacing increases in the distributions;
- The Travelodge Burlington, Ontario was sold for \$4.7 million in the second quarter; and
- \$7.6 million was invested in our hotels.

Overview of InnVest REIT

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 and six months ended June 30, 2007, with a comparison to the results of operations of InnVest for the three and six months ended June 30, 2006.

The following management's discussion and analysis ("MD&A") is dated August 8, 2007 and should be read in conjunction with the unaudited consolidated financial statements of the REIT and the notes thereto as at and for the three and six months ended June 30, 2007, the audited consolidated financial statements of the REIT and the notes thereto as at and for the year ended December 31, 2006, and the MD&A dated March 7, 2007.

The financial statements of InnVest are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. Monetary 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.

InnVest is an unincorporated open-ended real estate investment trust governed by the laws of Ontario and a Declaration of Trust. It is publicly traded and listed on the Toronto Stock Exchange under the symbol INN.UN.

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

InnVest's Portfolio of Hotels

At June 30, 2007, InnVest held Canada's largest hotel portfolio with 135 hotels and 15,476 rooms located in every province of Canada. InnVest also owns a 50% interest in Choice Hotels Canada Inc. ("Choice Canada"), the largest franchisor of hotels in Canada.

The portfolio consists of limited, mid-scale with food and beverage and full service hotel properties. Over 76% of InnVest's guest rooms are in Ontario and Québec.

InnVest operates these hotel properties under 12 internationally recognized franchise brands including Comfort Inn[®], Quality Suites[®], Quality Hotels[®], Holiday Inn[®], Radisson Hotels[®], Radisson Suites[®], Delta[®], Hilton Hotels[®], Hilton Garden Inn[®], Hilton Homewood Suites[®], Travelodge[®] and Best Western[®]. Comfort Inn represents 43.8% of the portfolio based on number of guest rooms. InnVest's hotels are typically located near major thoroughfares in urban and suburban areas, business centres, government and manufacturing facilities, universities, airports and tourist attractions. The hotels have a diverse customer base, including business travelers, leisure travelers, groups, organizations and corporate clients.

Brands	No. of Hotels	No. of Guest Rooms	% of Guest Rooms
Comfort Inn	84	6,780	43.8%
Holiday Inn	14	2,456	15.9%
Travelodge	10	1,723	11.1%
Quality Suites/Inn	8	1,096	7.1%
Quality Hotel	5	796	5.1%
Radisson Hotel/Suites	4	707	4.6%
Delta Hotel	3	582	3.8%
Hilton Hotel	2	768	5.0%
Best Western	1	130	0.8%
Hilton Garden Inn	1	120	0.8%
Hilton Homewood Suites	1	83	0.5%
Independent	2	253	1.5%
	135	15,476	100.0%

The Geographic Distribution of InnVest's Hotels and Rooms by Brand

	Ontario			Québec			Atlantic			Western		
	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms	No. of Hotels	No. of Guest Rooms	% of Guest Rooms
Comfort Inn	38	3,155	20.4%	22	1,754	11.3%	15	1,126	7.3%	9	745	4.8%
Holiday Inn	13	2,260	14.6%	–	–	–	1	196	1.3%	–	–	–
Travelodge	6	827	5.3%	–	–	–	–	–	–	4	896	5.8%
Quality Suites/Inn	4	604	3.9%	4	492	3.2%	–	–	–	–	–	–
Quality Hotel	1	212	1.4%	2	298	1.9%	1	160	1.0%	1	126	0.8%
Radisson Hotel/Suites	3	532	3.5%	1	175	1.1%	–	–	–	–	–	–
Delta Hotel	1	245	1.6%	2	337	2.2%	–	–	–	–	–	–
Hilton Hotel	–	–	–	1	571	3.7%	1	197	1.3%	–	–	–
Best Western	1	130	0.8%	–	–	–	–	–	–	–	–	–
Hilton Garden Inn	1	120	0.8%	–	–	–	–	–	–	–	–	–
Hilton Homewood Suites	1	83	0.5%	–	–	–	–	–	–	–	–	–
Independent	1	83	0.5%	–	–	–	–	–	–	1	152	1.0%
	70	8,251	53.3%	32	3,627	23.4%	18	1,679	10.9%	15	1,919	12.4%

Management's discussion and analysis

InnVest's Franchise, Office, Retail and Retirement Home Businesses

InnVest's franchise, office, retail and retirement home businesses remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Hotel Key Performance Measures

There are several key metrics that are used to measure the performance of the hotel industry and the relative strength of participants in the industry. Those measures are occupancy, average daily rates ("ADR"), revenue per available room ("RevPAR"), gross operating profit ("GOP"), hotel operating income ("HOI"), funds from operations ("FFO") and distributable income ("DI").

Regional performance

For the second quarter, on a same hotel basis, InnVest experienced above average RevPAR growth of 12.8% in western Canada with the Saskatchewan hotels posting the highest percentage gains (19.0%). The Atlantic region hotels posted RevPAR improvement of 5.3%. In Ontario and Québec, where the majority of InnVest's hotels are located, posted RevPAR declines of 1.6% and 1.7% respectively.

InnVest's Key Performance Measures

Note: Measures related to room revenues are on a same hotel basis, excluding the hotels that have been classified as discontinued operations, and the hotels acquired in the second and third quarters of 2006 for which comparative data is not available.

	Three months ended June 30			Six months ended June 30		
	2007	2006	Var %	2006	2005	Var %
Occupancy						
Ontario	63.8%	66.1%	(3.5)%	59.8%	61.3%	(2.4)%
Québec	63.7%	66.1%	(3.6)%	59.0%	60.5%	(2.5)%
Atlantic	67.0%	66.3%	1.1 %	60.3%	59.8%	0.8%
Western	68.0%	65.6%	3.7 %	63.6%	59.7%	6.5%
Total	64.7%	66.0%	(2.0)%	60.2%	60.8%	(1.0)%
ADR						
Ontario	\$ 104.57	\$ 102.62	1.9 %	\$ 103.09	\$ 101.19	1.9%
Québec	\$ 95.67	\$ 93.86	1.9 %	\$ 92.85	\$ 90.84	2.2%
Atlantic	\$ 94.30	\$ 90.57	4.1 %	\$ 89.83	\$ 86.27	4.1%
Western	\$ 85.50	\$ 78.62	8.8 %	\$ 83.37	\$ 76.94	8.4%
Total	\$ 99.06	\$ 96.44	2.7 %	\$ 96.95	\$ 94.45	2.6%
RevPAR						
Ontario	\$ 66.74	\$ 67.81	(1.6)%	\$ 61.60	\$ 62.03	(0.7)%
Québec	\$ 60.97	\$ 62.02	(1.7)%	\$ 54.77	\$ 55.00	(0.4)%
Atlantic	\$ 63.21	\$ 60.01	5.3%	\$ 54.17	\$ 51.58	5.0%
Western	\$ 58.14	\$ 51.54	12.8%	\$ 53.02	\$ 45.93	15.4%
Total	\$ 64.10	\$ 63.68	0.7%	\$ 58.35	\$ 57.41	1.6 %

On a same hotel basis, the REIT's hotels posted a RevPAR improvement of 0.7% for the three months ended June 30, 2007 over the same period in the previous year. This increase was achieved through a 2.7% or \$2.62 increase in ADR and a 2.0% decrease in occupancy.

InnVest's Geographical Performance Comparison

Note: Measured on a same hotel basis for the six months ended June 30, 2007.

RevPAR % Growth by Geographical Regions

	InnVest Portfolio	Canadian Market	Variance
Ontario	(0.7)%	1.3%	(2.0)%
Québec	(0.4)%	(2.9)%	2.5 %
Atlantic	5.0%	5.7%	(0.7)%
Western	15.4%	10.1%	5.3%
Canada	1.6%	4.7%	(3.1)%

InnVest underperformed the market in Ontario and the Atlantic region and outperformed the market in Québec and the Western region in terms of increases in RevPAR. InnVest underperformed the market in Ontario because it owns a disproportionate amount of the hotels in soft markets such as Windsor and Oshawa. In the Atlantic region strong growth was experienced in Newfoundland where the REIT only owns two hotels. InnVest underperformed the Canadian market by 3.1% in RevPAR growth partially because of its geographical distribution with relatively few hotels located in the Western region even though InnVest outperformed the market in the Western region.

Recent Industry Performance

The Canadian hotel industry performed as expected in the first half of 2007. According to PKF Consulting, advisors to the Canadian hotel industry, occupancy and ADRs for the six months ended June 30, 2007 experienced 0.7 points and 3.5% growth respectively resulting in RevPAR growth of 4.7% for the period.

InnVest's strategy and objectives

InnVest's Operating Strategy and Objectives

InnVest's operating strategy and objectives remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Acquisition Strategy and 2007 Activity

The acquisitions described below, including the hotel under development will continue to increase InnVest's participation in the mid-scale with food and beverage segment and further launch InnVest into the extended stay segment of the market with the Staybridge Suites brand and provide greater presence in Western Canada.

InnVest continued to pursue acquisition opportunities entering into a contract to purchase three hotels and develop a fourth, with a total of 455 rooms for a combined purchase price of \$48.3 million plus transaction costs and construction costs of \$14.0 million in the first and second quarters of 2007. The transaction to acquire these new build hotel properties will close in stages as the construction of each hotel is completed, which is scheduled during the third and fourth quarters. The hotels to be acquired include a 117 room Staybridge Suites located in London, Ontario, a 116 room Holiday Inn Express located in North Bay, Ontario and a 116 room Staybridge Suites located in Guelph, Ontario, while the hotel under development is a 106 room Staybridge Suites in Oakville, Ontario. On July 20, 2007, the REIT closed on the Staybridge Suites in London, Ontario at a cost of \$17.0 million plus transaction costs. The REIT assumed an \$8.3 million first mortgage, which bears interest at 6.4% interest for a term of 10 years, with the balance being funded from cash on hand.

It is anticipated that these acquisitions, including the hotel under development will be funded through cash on hand, refinancing proceeds and new mortgage financing proceeds.

Management's discussion and analysis

On July 12, 2007 InnVest, in partnership with Cadbridge Investors LP ("Cadbridge"), a joint venture entity between affiliates of Cadim, a division of the Caisse de Dépôt et Placement du Québec and an affiliate of InnVest's hotel manager, Westmont Hospitality Canada Limited ("Westmont"), announced a take-over bid for all of the outstanding units of Legacy Hotels Real Estate Investment Trust ("Legacy") at a price of \$12.60 per unit. The take-over bid will be effected by LGY Acquisition LP, a newly-formed limited partnership, owned by InnVest and Cadbridge in which InnVest has an approximate 26% interest. Upon the successful completion of the acquisition of 100% of Legacy's outstanding units, InnVest and Cadbridge will reorganize Legacy's assets such that InnVest will become the owner of the following eleven first class hotels: The Fairmont Palliser, Sheraton Suites Calgary Eau Claire, Delta Calgary Airport, Fairmont Hotel Macdonald, Delta Winnipeg Hotel, Delta Ottawa Hotel and Suites, Delta Centre-Ville, Delta Beauséjour, Delta Prince Edward, Delta Barrington and the Delta Halifax (collectively the "Portfolio"). This reorganization is expected to be completed within 30 days of LGY Acquisition LP acquiring 100% of Legacy's outstanding units and, until such time, InnVest will remain an approximate 26% owner in LGY Acquisition LP.

The purchase price, including the assumption of existing debt, in respect of the eleven hotels that InnVest will ultimately acquire, is approximately \$652 million (\$178 per room) prior to closing and transaction costs.

Upon the completion of the portfolio acquisition, InnVest's total portfolio will increase to 147 properties, totaling 19,265 rooms across Canada.

In order to partially fund the \$676 million cost of the Portfolio acquisition (which includes the various transaction and financing costs required to close the Portfolio acquisition), InnVest has entered into an agreement to sell to a syndicate of underwriters, on a bought deal basis, \$200 million of subscription receipts at a price of \$12.35 per subscription receipt representing the right to receive trust units of the REIT and \$70 million of convertible extendible unsecured subordinated debentures. The remainder of the purchase price will be satisfied with the assumption of \$194 million in mortgage debt secured by the properties and \$212 million of bridge financing from a Canadian chartered bank. InnVest intends to refinance the existing mortgages and arrange new mortgage financing on five of the acquired assets that are currently unencumbered. The bridge loan will be repaid from the proceeds of these financings.

The subscription receipts are exchangeable on a one-for-one basis for units of InnVest upon completion of LGY Acquisition LP's take-over bid for Legacy (but prior to the subsequent reorganization as described above). The take-over bid is subject to customary conditions, including receipt of regulatory approvals and the requirement that a minimum of two-thirds of Legacy's units be tendered into the bid. Fairmont Hotels & Resorts Inc., Legacy's largest unitholder representing 20.4% of the outstanding voting rights, has entered into a lockup agreement with LGY Acquisition LP to tender its entire ownership interest in Legacy to the take-over bid. The convertible debentures have an initial maturity date of December 31, 2007 (but can mature earlier upon the occurrence of certain events) and will be extended to August 1, 2014 upon completion of LGY Acquisition LP's take-over bid for Legacy. The convertible debentures have a coupon of 5.85% per annum and will pay interest semi-annually in arrears on August 1 and February 1 in each year commencing on February 1, 2008. The convertible debentures are convertible into approximately 68.027 units of the REIT per \$1,000 principal amount, at any time, at the option of the holder, representing a conversion price of \$14.70 per unit.

The subscription receipts and convertible debentures were offered in all the provinces of Canada by means of a short form prospectus. Closing of the offering occurred on August 3, 2007.

The acquired hotels are leading properties in their respective markets and include a number of historical landmarks. The majority of the acquired hotels have considerable meeting space, multiple food and beverage facilities and are ideally located in downtown city centre locations within very close proximity to a number of demand drivers, including but not limited to shopping and recreation areas, businesses, restaurants, convention centres, historical sites and casinos.

Details of the hotel properties being acquired by InnVest are as follows:

Hotel	Location	Rooms
The Fairmont Palliser	Calgary, Alberta	405
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Delta Beauséjour	Moncton, New Brunswick	310
Delta Prince Edward	Charlottetown, Prince Edward Island	211
Delta Barrington	Halifax, Nova Scotia	200
Delta Halifax	Halifax, Nova Scotia	296
Total		3,672

The brand and geographic summary of the Portfolio to be acquired in the Portfolio and the Staybridge Suites London are as follows:

	Ontario		Québec		Atlantic		Western	
	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms	No. of Hotels	No. of Guest Rooms
Delta Hotel	1	328	1	711	4	1,017	2	689
Fairmont Hotel	–	–	–	–	–	–	2	604
Sheraton Suites	–	–	–	–	–	–	1	323
Staybridge Suites	1	117	–	–	–	–	–	–
	2	445	1	711	4	1,017	5	1,616

Divestiture Strategy

InnVest monitors the operating performance of its individual assets on an ongoing basis. From time to time, certain assets are identified that may not support one or more of InnVest's objectives. Such assets may provide unstable or decreasing net operating income levels, which in turn affects InnVest's ability to maintain stable and growing cash distributions to its unitholders. Also, the retention of certain assets may be inconsistent with InnVest's objective of maximizing the long-term asset value of the portfolio.

Such a condition may exist where it is believed that further capital investment in an asset will not provide increases in net operating income sufficient to maintain or grow cash distributions. In addition, certain assets may not contribute to the proposition of long-term value appreciation given both the current and future market characteristics and the business environment. Overall, when assets are identified that do not support certain primary objectives of the REIT, an analysis is conducted to decide if the divestiture of such assets is in the best interest of unitholders. Such an analysis takes into consideration the implications for distributable income and overall diversification, market conditions and numerous other factors.

At the end of December 31, 2006, two hotels were classified as held for sale. One of these hotels was sold at the end of the first quarter of 2007, while the second hotel was sold early in the second quarter of 2007. An accounting gain of \$659 was recorded in the first quarter, and a further gain of \$174 was recorded in the second quarter.

Management's discussion and analysis

InnVest's Competitive Strengths

InnVest's competitive strengths remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

InnVest's operating results

Below is a comparison of the operating results for the three and six months ended June 30, 2007 to the results of operations for the comparable periods in 2006.

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Hotel revenues	\$ 111,467	\$ 97,242	\$ 201,493	\$ 173,146
Hotel expenses	77,072	64,469	149,475	123,794
Hotel operating income	34,395	32,773	52,018	49,352
Net (loss) income from continuing operations	\$ (113,460)	\$ 22,303	\$ (6,768)	\$ 16,841
Net (loss) income from continuing operations				
per unit – basic	\$ (2.026)	\$ 0.443	\$ (0.122)	\$ 0.335
per unit – diluted	\$ (2.026)	\$ 0.412	\$ (0.122)	\$ 0.335
Net income (loss) from discontinued operations	\$ 169	\$ (937)	\$ 809	\$ (1,036)
Net (loss) income and comprehensive (loss) income	\$ (113,291)	\$ 21,366	\$ (5,959)	\$ 15,805
Add / (deduct)				
Depreciation, amortization and accretion ⁽¹⁾	14,106	11,974	27,856	23,228
Future income tax expense (recovery)	122,626	(12,684)	7,090	(12,906)
Non-cash executive and trustee compensation	140	84	228	175
(Gain) on sale, write down of assets held for sale	(174)	1,000	(833)	1,000
Corporate reorganization expense	–	–	1,471	–
Funds from operations ⁽²⁾	\$ 23,407	\$ 21,740	\$ 29,853	\$ 27,302
Funds from operations per unit ⁽³⁾				
– basic	\$ 0.418	\$ 0.432	\$ 0.537	\$ 0.543
– diluted	\$ 0.388	\$ 0.399	\$ 0.519	\$ 0.527
Amortization of deferred financing costs	–	656	–	1,229
Non-cash portion of interest expense	751	–	1,477	–
Reserve for replacement of furniture, fixtures and equipment and capital improvements ("FF&E Reserve")	(4,459)	(3,887)	(8,079)	(6,942)
Convertible debentures accretion	190	204	402	384
Deferred land lease expense and retail lease income, net	3	25	17	50
Distributable income ⁽²⁾	\$ 19,892	\$ 18,738	\$ 23,670	\$ 22,023
Distributable income per unit ⁽³⁾				
– basic	\$ 0.355	\$ 0.372	\$ 0.425	\$ 0.438
– diluted	\$ 0.335	\$ 0.349	\$ 0.422	\$ 0.434
Distributions ⁽⁴⁾	\$ 15,793	\$ 14,864	\$ 31,373	\$ 28,733
Distributions – per unit ⁽⁴⁾	\$ 0.2813	\$ 0.2813	\$ 0.5625	\$ 0.5625

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Reconciliation of Cash flow from operating activities to Distributable income				
Cash flow from operating activities	\$ 23,306	\$ 18,587	\$ 25,401	\$ 27,621
Changes in non-cash working capital	683	4,026	4,749	1,267
Miscellaneous, including changes in non-cash working capital – discontinued operations	359	(13)	111	27
Corporate reorganization expense	–	–	1,471	–
Reserve for replacement of furniture, fixtures and equipment and capital improvements (“FF&E Reserve”)	(4,459)	(3,887)	(8,079)	(6,942)
Deferred land lease expense and retail lease income, net	3	25	17	50
Distributable income ⁽²⁾	\$ 19,892	\$ 18,738	\$ 23,670	\$ 22,023

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

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

(3) Funds from operations and distributable income per unit amounts have been calculated on a basis consistent with that prescribed by GAAP for calculating earnings per unit.

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

Management's discussion and analysis

Operating results review – three months ended June 30, 2007

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue 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 because leisure travel tends to be lower. The results from operations vary materially from quarter to quarter because of the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, depreciation and amortization, corporate and administrative are fixed or virtually fixed.

Hotel Operating Results Comparison

In summarizing the hotel operating results for the three months ended June 30, 2007 and comparing those results to the three months ended June 30, 2006, the REIT has categorized 129 of its hotels owned for the entire current and comparative period as its "Base Portfolio". All the hotels acquired after the end of the first quarter of 2006 are categorized as the "2006 Acquisitions".

Hotel Revenues

A summary of the hotel revenue categorized by room revenue and non-room revenue for the three months ended June 30, 2007 and 2006 are stated below:

	2007	2006	Variance
Room Revenue			
Base Portfolio	\$ 82,639	\$ 82,097	\$ 542
2006 Acquisitions	11,475	1,882	9,593
Sub-total	\$ 94,114	\$ 83,979	\$ 10,135
Non-Room Revenue			
Base Portfolio	\$ 11,932	\$ 12,449	\$ (517)
2006 Acquisitions	5,421	814	4,607
Sub-total	\$ 17,353	\$ 13,263	\$ 4,090
Hotel Revenue			
Base Portfolio	\$ 94,571	\$ 94,546	\$ 25
2006 Acquisitions	16,896	2,696	14,200
Total	\$ 111,467	\$ 97,242	\$ 14,225

Overall Hotel Portfolio

In the second quarter hotel revenue increased by \$14.2 million, with substantially all of the increase due to the hotels acquired in 2006. The Base Portfolio of 129 hotels contributed modestly with \$25 of the increase. The 2006 Acquisitions were acquired after the end of the first quarter and prior to the end of the third quarter of 2006, with two Hiltons on April 28, 2006, two Deltas on May 25, 2006 and the two remaining Hiltons on September 19, 2006. The revenues for the hotel acquired on March 3, 2006 are shown in the Base Portfolio for the second quarter.

The increase of \$10.1 million in room revenues for the three months ended June 30, 2007 reflects \$9.6 million in revenues from the hotels acquired in 2006. The balance of \$542 million improvement reflects an overall increase in room revenue of 0.7% in the Base Portfolio. There were increases in the Atlantic and Western regions, with the largest dollar and percentage increase experienced in the Western region.

Room Revenues

A geographical comparison of the room revenue variance between the three months ended June 30, 2007 and 2006, excluding the assets classified as discontinued operations are as follows:

	Hotels	Rooms	As a % of total	Room Revenue variance	As a % of total	Var % over 2006
Base Portfolio						
Ontario	68	8,048	52.0%	\$ (783)	(7.7)%	(1.6)%
Québec	29	2,719	17.6%	(259)	(2.6)%	(1.7)%
Atlantic	17	1,482	9.6%	431	4.3%	5.3%
Western	15	1,919	12.4%	1,153	11.3%	12.8%
Sub-total	129	14,168	91.6%	542	5.3%	0.7%
2006 Acquisitions	6	1,308	8.4%	9,593	94.7%	–
Total	135	15,476	100.0%	\$ 10,135	100.0%	12.1%

InnVest's Base Portfolio of Western hotels achieved the largest percentage growth of 12.8%, along with the largest dollar increase of \$1.2 million, while the Ontario hotels experienced a decline of \$783 or 1.6% in room revenues relative to the same period in 2006. The results for the quarter were negatively impacted from the Easter holiday weekend being in April in 2007 versus March in 2006. The Ontario markets which contributed to the decline were the Greater Toronto Area ("GTA") (\$633 or 4.4%), Oshawa (\$472 or 15.2%), London (\$295 or 7.7%) and Burlington-Oakville (\$183 or 4.6%), while InnVest's hotels elsewhere in Ontario posted room revenue increases of \$799 or 3.3%. The GTA market was impacted by reduced convention activity and the strong Canadian dollar. The Oshawa market continues to be impacted by reduced activity in local automotive manufacturing and new competition, while the London and Burlington-Oakville markets decline were the result of a decline in occupancy caused by new competition. The Ontario markets outside of the GTA with significant positive contribution to the results for the three-month period were Eastern Ontario (\$278 or 9.6%), North Bay (\$128 or 9.0%) and Ottawa (\$297 or 5.2%).

InnVest's Base Portfolio of hotels in Québec experienced a room revenue decrease of \$259 or 1.7%. The REIT's rural Québec hotels contributed positively improving by \$361 or 8.2%, while the REIT's Montréal hotels posted a decline of \$549 or 6.3% and Québec City posted a decline of \$71 or 3.3%.

InnVest's Base Portfolio of Atlantic region hotels experienced growth of \$431 or 5.3% from the same period in 2006, with consistent gains in all four provinces.

InnVest's Base Portfolio of Western hotels continued to experience significant revenue growth posting an increase of \$1.2 million or 12.8% over the same period in the prior year. The majority of the gains were posted by the hotels located in Alberta (\$608 or 10.7%) and Saskatchewan (\$347 or 19.0%). This increase was attributable to occupancy improvements and room rate increases related to economic activity generated by the oil and gas industry.

Management's discussion and analysis

Non-Room Revenues

Non-room revenues increased by \$4.1 million, reflecting the non-room revenues generated by the hotels the REIT acquired in 2006, which were not owned for the entire comparative period. The majority of the hotels which were acquired in 2006 generated a higher proportion of total revenues from non-room revenues such as food and beverage sales. Non-room revenues declined in the Base Portfolio by \$517, which included a decrease in food and beverage revenue of \$209, telephone revenue of \$76, insurance proceeds received in the prior year of \$100, a reduction in interest income and gains on the conversion of American dollars to Canadian dollars.

Hotel Operating Income Margin Analysis

The following chart illustrates the REIT's margins for the Base Portfolio and the 2006 Acquisitions, excluding the assets classified as discontinued operations, for the three months ended June 30, 2007 and 2006:

	Base Portfolio	2006 Acquisitions ⁽¹⁾	Total
2007			
Hotel revenues	\$ 94,571	\$ 16,896	\$ 111,467
Hotel expenses			
Operating expenses	52,275	11,475	63,750
Property taxes, rent and insurance	8,770	818	9,588
Management fees	3,198	536	3,734
	64,243	12,829	77,072
Hotel operating income	\$ 30,328	\$ 4,067	\$ 34,395
HOI margin	32.1%	24.1%	30.9%
2006			
Hotel revenues	\$ 94,546	\$ 2,696	\$ 97,242
Hotel expenses			
Operating expenses	51,026	1,428	52,454
Property taxes, rent and insurance	8,606	127	8,733
Management fees	3,196	86	3,282
	62,828	1,641	64,469
Hotel operating income	\$ 31,718	\$ 1,055	\$ 32,773
HOI margin	33.5%	39.1%	33.7%
Variance			
Hotel revenues	\$ 25	\$ 14,200	\$ 14,225
Hotel expenses			
Operating expenses	1,249	10,047	11,296
Property taxes, rent and insurance	165	691	856
Management fees	1	450	451
	1,415	11,188	12,603
Hotel operating income	\$ (1,390)	\$ 3,012	\$ 1,622
HOI margin	(1.4)%	(15.0)%	(2.8)%

(1) The 2006 Acquisitions represent hotels acquired in 2006 that were not owned for the entire comparative period.

Total hotel operating income margin decreased by 2.8 points, which can be partially attributed to the impact of seasonality inherent in the 2006 Acquisitions, which were acquired in the second and third quarters of 2006 and the resulting lower margins experienced for the 2006 Acquisitions relative to the Base Portfolio. The 2006 Acquisitions generate a larger portion of their business in the non-room categories that typically yield lower margins and are subject to a higher level of fixed costs which increase the impact of seasonality on operating income. The Base Portfolio's operating margin decreased by 1.4 points as the result of below than inflation increases in room revenues and the decline in non-room revenue.

Hotel Expenses

Hotel expenses for the three months ended June 30, 2007 increased by \$12.6 million or 19.5% when compared to the same period in 2006. This increase reflects \$11.2 million in expenses incurred in the hotels acquired in 2006 after the end of the first quarter that were not owned for the entire comparative period. The remaining \$1.4 million related to the Base Portfolio represents a 2.3% increase over the same period in 2006.

Hotel Operating Income

Hotel operating income ("HOI") for the three months ended June 30, 2007 improved by \$1.6 million to \$34.4 million. This was a result of an increase in hotel revenues of \$14.2 million less an overall increase in hotel expenses of \$12.6 million.

A geographical comparison of the HOI variance between the three months ended June 30, 2007 and 2006 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2006
Base Portfolio						
Ontario	68	8,048	52.0%	\$ (1,258)	(77.6)%	(6.7)%
Québec	29	2,719	17.6%	(807)	(49.8)%	(13.6)%
Atlantic	17	1,482	9.6%	308	19.0%	9.3%
Western	15	1,919	12.4%	367	22.6%	10.0%
Sub-total	129	14,168	91.6%	(1,390)	(85.7)%	(4.4)%
2006 Acquisitions	6	1,308	8.4%	3,012	185.7%	285.5%
Total	135	15,476	100.0%	\$ 1,622	100.0%	4.9%

Increases in the 2006 Acquisitions of \$3.0 million were partially offset by a decline in the Base Portfolio of \$1.4 million. In the Base Portfolio, increases in HOI were experienced in two out of four regions with the largest dollar and percentage increase achieved in the Western region at \$367 and 10.0%.

Management's discussion and analysis

Other Income and Expenses

The net amount of other income and expenses for the three months ended June 30, 2007 was \$25.2 million, \$1.9 million or 8.0% more than the same period in 2006. The main contributors to this increase were a \$1.3 million increase in interest on mortgages on other debt, a \$406 decrease in convertible debentures interest and accretion, a \$1.6 million increase in depreciation, amortization and accretion, a \$248 increase in corporate and administrative expenses, a \$456 increase in other business income and a \$387 reduction in capital tax. The increases were mainly related to the hotels acquired during 2006. The decrease in convertible debentures interest and accretion was the net result of the conversion of debentures and the amortization of costs associated with the issuing of the debentures because of the use of the effective interest method. The reduction in capital tax was the result of the corporate reorganization completed on January 2, 2007.

Income Taxes

Current income tax expense for the three months ended June 30, 2007 was zero because of the elimination of the large corporation tax, an increase of \$197 from the recovery recorded as the result of losses carried back to prior periods in corporate subsidiaries of InnVest in the same period in 2006. Further, InnVest experienced a \$122.6 million future income tax expense during the quarter as the result of changes in the income tax legislation related to Real Estate Investment Trusts.

Net (loss) income from Continuing Operations

InnVest's net loss from continuing operations was \$113.5 million or \$2.026 per unit basic and diluted, compared with a net income in the prior year's period of \$22.3 million or \$0.443 per unit basic (\$0.412 – diluted). The decrease of \$135.8 million is the combined result of the reinstatement of the reversal of the future income tax liability of \$115.5 million from the first quarter and an additional future income tax liability recorded of \$7.2 million resulting from changes to the income tax legislation related to Real Estate Investment Trusts and the \$12.7 million reduction in the future income tax liability in the comparative period, which was related to reductions in the corporate income tax rates in 2006, improvements in hotel operating income and the increase in other income and expense discussed above.

Funds from Operations

Funds from operations ("FFO") is not a measure defined under GAAP but it is widely used in the real estate industry. The Real Property Association of Canada generally defines FFO as net income adjusted for extraordinary items, gains or losses on the sale of assets, provisions for impairment against property values, capital items and depreciation and amortization relating to capital items. As an indicator of performance, FFO should not be considered a substitute for net income or funds from operating activities determined in accordance with GAAP. The REIT's method of calculating FFO may be different from that of other organizations.

The REIT currently calculates FFO by using net income and adjusting for:

- i) Depreciation, amortization and accretion, excluding amortization of deferred financing costs,
- ii) Future income tax expense or recovery,
- iii) Non-cash executive and trustee compensation expense,
- iv) Gains or write down of assets held for sale, and
- v) Corporate restructuring expense

FFO is a meaningful measure of operating performance for investors. It assumes that the value of real estate investments does not necessarily decrease on a systematic basis over time, an assumption inherent in GAAP, and it adjusts for items included in GAAP net income that do not necessarily provide the best indicator of operating performance, such as gains or losses on the sale of, and provisions for impairment against, hotel properties.

FFO for the three months ended June 30, 2007 increased \$1.7 million to \$23.4 million or \$0.418 per unit basic (\$0.388 – diluted) from \$21.7 million or \$0.432 per unit basic (\$0.399 – diluted) in the same period of 2006.

Distributable Income

Distributable income is not a measure defined under GAAP; however it is commonly used in the real estate investment trust industry to measure performance.

Distributable income is defined in the REIT's Declaration of Trust to mean net income of the REIT and its consolidated subsidiaries as reported in its consolidated financial statements adjusted for:

- i) Depreciation, amortization and accretion and future income tax expense,
- ii) Any gains or losses on the disposition of any real property and any future income tax benefits,
- iii) The reserve for replacement of furniture, fixtures and equipment and capital improvements ("FF&E reserve"), and
- iv) Any other adjustment determined by a majority of the Trustees of the REIT in their discretion.

The calculation of distributable income and the amounts of each adjustment from net income are disclosed in the notes to the financial statements. Distributable income is one measure used by industry analysts in the determination of the Trust's per unit value, the ability of the Trust to fund distributions and investment returns for current or potential investors. As outlined in the Declaration of Trust, the REIT is required to distribute monthly to unitholders not less than one-twelfth of 80% of the estimated annualized distributable income of the REIT for the calendar year. Distributable income is not only used by management and the Board of Trustees to determine the level of distributions to unitholders, it also serves as an important measure for investors in their evaluation of the performance of management.

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

Distributable income for the three months ended June 30, 2007 was \$19.9 million or \$0.355 per unit basic (\$0.335 – diluted). This reflects a \$1.2 million improvement over the distributable income experienced for the same period of the prior year of \$18.7 million or \$0.372 per unit basic (\$0.349 – diluted)

Changes in Financial Position

The following discussion evaluates the cash flow results of InnVest from operating, financing and investing activities for the three months ended June 30, 2007.

Operating Activities

Funds generated from operating activities increased \$4.7 million to \$23.3 million for the three months ended June 30, 2007. The increase is mainly attributable to an increase in hotel operating income of \$1.6 million less an increase in the cash portion of interest expense on mortgages and other debt of \$525, a decrease in the cash portion of convertible debentures interest of \$392, an increase in corporate and administrative expense of \$248, plus combined improvements in other business income and other income and current income and capital taxes of \$602, plus a net increase of \$2.8 million in changes in non-cash working capital, including the amount from discontinued operations.

Management's discussion and analysis

Financing Activities

Funds used in financing activities were \$15.3 million for the three months ended June 30, 2007 compared to funds provided of \$53.9 million for the same period in 2006. The majority of the change relates to:

- A decrease of proceeds from the issuance of convertible debentures of \$75 million;
- A increase of \$5.7 million in the repayment bank indebtedness;
- An increase in the net of proceeds and repayment of long-term debt of \$11.0 million;
- An increase in the repayment of debt from discontinued operations of \$1.2 million;
- Decrease in debt issuance costs incurred of \$1.6 million; and
- Decrease in cash distributions of \$457.

Investing Activities

Funds used for investing activities were \$5.2 million during the three months ended June 30, 2007 compared to \$60.8 million in the same period in 2006. The majority of the change relates to:

- Decrease in cash used for hotel acquisitions (including changes in non-cash working capital, hotel under development and other assets of \$52.0 million);
- Sale of discontinued assets of \$4.3 million;
- Increase in capital expenditures of \$944; and
- Use of \$1.8 million in cash restricted for future furniture, fixtures and equipment and capital expenditures versus \$1.5 million in the same period of the prior year.

In the three months ended June 30, 2007, InnVest spent \$7.6 million on capital items (2006 – \$6.6 million).

As part of the regular refurbishment program, InnVest sets aside 4% of revenue 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 to ensure they remain competitive in their markets.

Operating results review – six months ended June 30, 2007

InnVest's operations are seasonal and as such its results are not consistent throughout the year. Revenue 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 because leisure travel tends to be lower. The results from operations vary materially from quarter to quarter because of the seasonal nature of the revenue stream and the fact that certain costs such as property taxes, insurance, interest, depreciation and amortization, corporate and administrative are fixed or virtually fixed.

Hotel Operating Results Comparison

In summarizing the hotel operating results for the six months ended June 30, 2007 and comparing those results to the six months ended June 30, 2006, the REIT has categorized 128 of its hotels owned for the entire current and comparative period as its “Base Portfolio” with the remaining two hotels being classified as discontinued operations. All the hotels acquired in 2006 are categorized as the “2006 Acquisitions”.

Hotel Revenues

A summary of the hotel revenue categorized by room revenue and non-room revenue for the six months ended June 30, 2007 and 2006 are stated below:

	2007	2006	Variance
Room Revenue			
Base Portfolio	\$ 149,181	\$ 146,879	\$ 2,302
2006 Acquisitions	19,992	2,224	17,768
Sub-total	\$ 169,173	\$ 149,103	\$ 20,070
Non-Room Revenue			
Base Portfolio	\$ 22,815	\$ 23,226	\$ (411)
2006 Acquisitions	9,505	817	8,688
Sub-total	\$ 32,320	\$ 24,043	\$ 8,277
Hotel Revenue			
Base Portfolio	\$ 171,996	\$ 170,105	\$ 1,891
2006 Acquisitions	29,497	3,041	26,456
Total	\$ 201,493	\$ 173,146	\$ 28,347

Overall Hotel Portfolio

Hotel revenue increased by \$28.3 million, with \$26.5 million of the increase due to the hotels acquired in 2006. The Base Portfolio of 128 hotels contributed \$1.9 million of the increase, which represents a 1.1% improvement over the same period in the prior year. All of the 2006 Acquisitions were acquired prior to the end of the third quarter of 2006, with one hotel acquired on March 3, 2006, two Hiltons on April 28, 2006, two Deltas on May 25, 2006 and the two remaining Hiltons on September 19, 2006.

The increase of \$20.1 million in room revenues for the six months ended June 30, 2007 reflects \$17.8 million in revenues from the hotels acquired in 2006. The balance of \$2.3 million improvement reflects an overall increase in room revenue of 1.6% in the Base Portfolio. There were increases in the Atlantic and Western regions, with the largest dollar and percentage increase experienced in the Western region.

Room Revenues

A geographical comparison of the room revenue variance between the six months ended June 30, 2007 and 2006, excluding the assets classified as discontinued operations are as follows:

	Hotels	Rooms	As a % of total	Room Revenue variance	As a % of total	Var % over 2006
Base Portfolio						
Ontario	67	7,986	51.6%	\$ (740)	(3.7)%	(0.8)%
Québec	29	2,719	17.6%	(112)	(0.6)%	(0.4)%
Atlantic	17	1,482	9.6%	695	3.5%	5.0%
Western	15	1,919	12.4%	2,459	12.2%	15.4%
Sub-total	128	14,106	91.2%	2,302	11.4%	1.6%
2006 Acquisitions						
	7	1,370	8.8%	17,768	88.5%	798.9%
Total	135	15,476	100.0%	\$ 20,070	99.9%	13.5%

InnVest's Base Portfolio of Western hotels achieved the largest percentage growth of 15.4%, along with the largest dollar increase of \$2.5 million, while the Ontario hotels experienced a decline of \$740 or 0.8% in room revenues relative to the same period in 2006. The Ontario markets which contributed to the decline were Windsor (\$507 or 18.0%), Oshawa

Management's discussion and analysis

(\$887 or 14.9%), London (\$450 or 6.2%) and Burlington-Oakville (\$291 or 4.1%), while InnVest's hotels elsewhere in Ontario posted room revenue increases of \$1.4 million or 2.1%. The Windsor market was impacted from Detroit hosting the Super Bowl in 2006. The Oshawa market continues to be impacted by reduced activity in local automotive manufacturing and new competition, while the London and Burlington-Oakville markets decline were the result of a decline in occupancy caused by new competition. The Ontario markets outside of the GTA with significant positive contribution to the results for the six-month period were Eastern Ontario (\$328 or 6.8%), North Bay (\$103 or 3.7%) and Ottawa (\$830 or 8.1%).

InnVest's Base Portfolio of hotels in Québec experienced a room revenue decrease of \$112 or 0.4%. The REIT's rural Québec hotels contributed positively improving by \$529 or 6.6%, while the REIT's Montréal hotels posted a decline of \$554 or 3.7% and Québec City posted a decline of \$88 or 2.2%.

InnVest's Base Portfolio of Atlantic region hotels experienced growth of \$695 or 5.0% from the same period in 2006, with gains in all four provinces.

InnVest's Base Portfolio of Western hotels continued to experience significant revenue growth posting an increase of \$2.5 million or 15.4% over the same period in the prior year. The majority of the gains were posted by the hotels located in Alberta (\$1.6 million or 15.8%) and Saskatchewan (\$460 or 13.5%). This increase was attributable to occupancy improvements and room rate increases related to economic activity generated by the oil and gas industry.

Non-Room Revenues

Non-room revenues increased by \$8.3 million, reflecting the non-room revenues generated by the hotels the REIT acquired in 2006, which were not owned for the entire comparative period. The majority of the hotels which were acquired in 2006 generate a higher proportion of total revenues from non-room revenues such as food and beverage sales.

Hotel Operating Income Margin Analysis

The following chart illustrates the REIT's margins for the Base Portfolio and the 2006 Acquisitions, excluding the assets classified as discontinued operations, for the six months ended June 30, 2007 and 2006:

2007	Base Portfolio	2006 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 171,996	\$ 29,497	\$ 201,493
Hotel expenses			
Operating expenses	101,665	21,973	123,638
Property taxes, rent and insurance	17,489	1,570	19,059
Management fees	5,813	965	6,778
	124,967	24,508	149,475
Hotel operating income	\$ 47,029	\$ 4,989	\$ 52,018
HOI margin	27.3%	16.9%	25.8%

2006	Base Portfolio	2006 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 170,105	\$ 3,041	\$ 173,146
Hotel expenses			
Operating expenses	98,991	1,583	100,574
Property taxes, rent and insurance	17,218	159	17,377
Management fees	5,742	101	5,843
	121,951	1,843	123,794
Hotel operating income	\$ 48,154	\$ 1,198	\$ 49,352
HOI margin	28.3%	39.4%	28.5%

Variance	Base Portfolio	2006 Acquisitions ⁽¹⁾	Total
Hotel revenues	\$ 1,891	\$ 26,456	\$ 28,347
Hotel expenses			
Operating expenses	2,674	20,390	23,064
Property taxes, rent and insurance	271	1,411	1,682
Management fees	71	864	935
	3,016	22,665	25,681
Hotel operating income	\$ (1,125)	\$ 3,791	\$ 2,666
HOI margin	(1.0)%	(22.5)%	(2.7)%

(1) The 2006 Acquisitions represent hotels acquired in 2006 that were not owned for the entire comparative period.

Total hotel operating income margin decreased by 2.7 points, which is primarily attributed to the impact of seasonality inherent in the 2006 Acquisitions, which were acquired in the second and third quarters of 2006 and the resulting lower margins experienced for the 2006 Acquisitions relative to the Base Portfolio. The 2006 Acquisitions generate a larger portion of their business in the non-room categories that typically yield lower margins and are subject to a higher level of fixed costs which increase the impact of seasonality on operating income. The Base Portfolio's operating margin decreased by 1.0 point as the result of below than inflation increases in room revenues and the decline in non-room revenue.

Hotel Expenses

Hotel expenses for the six months ended June 30, 2007 increased by \$25.7 million or 20.7% when compared to the same period in 2006. This increase reflects \$22.7 million in expenses incurred in the hotels acquired in 2006, which were not owned for the entire comparative period. The remaining \$3.0 million relates to the Base Portfolio and represents a 2.5% increase over the same period in 2006.

Management's discussion and analysis

Hotel Operating Income

Hotel operating income ("HOI") for the six months ended June 30, 2007 improved by \$2.7 million to \$52.0 million. This was a result of an increase in hotel revenues of \$28.4 million less an overall increase in hotel expenses of \$25.7 million.

A geographical comparison of the HOI variance between the six months ended June 30, 2007 and 2006 is as follows:

	Hotels	Rooms	As a % of total	HOI variance	As a % of total	Var % over 2006
Base Portfolio						
Ontario	67	7,986	51.6%	\$ (1,830)	(68.6)%	(6.3)%
Québec	29	2,719	17.6%	(789)	(29.6)%	(8.9)%
Atlantic	17	1,482	9.6%	467	17.5%	10.2%
Western	15	1,919	12.4%	1,027	38.5%	18.0%
Sub-total	128	14,106	91.2%	(1,125)	(42.2)%	(2.3)%
2006 Acquisitions	7	1,370	8.8%	3,791	142.2%	316.4%
Total	135	15,476	100.0%	\$ 2,666	100.0%	5.4%

Increases in the 2006 Acquisitions of \$3.8 million were partially offset by a decline in the Base Portfolio of \$1.1 million. In the Base Portfolio, increases in HOI were experienced in two out of four regions with the largest dollar and percentage increase achieved in the Western region at \$1.0 million and 18.0%.

Other Income and Expenses

The net amount of other income and expenses for the six months ended June 30, 2007 was \$51.7 million, \$6.2 million or 13.5% more than the same period in 2006. The main contributors to this increase were a \$3.6 million increase in depreciation, amortization and accretion, a \$3.1 million increase in interest on mortgages, a \$1.7 million increase in corporate and administrative expenses, a \$1.0 million increase in other business income, a \$774 reduction in capital tax and a \$421 decrease in convertible debentures interest and accretion. The increases were mainly related to the hotels acquired during 2006, while the corporate and administrative expense increase was the result of land transfer tax and legal costs associated with a reorganization of InnVest. The decrease in convertible debentures interest and accretion was the net result of the conversion of debentures and the amortization of costs associated with the issuing of the debentures because of the use of the effective interest method. The reduction in capital tax was the result of the corporate reorganization completed on January 2, 2007.

Income Taxes

Current income tax expense for the six months ended June 30, 2007 was zero because of the elimination of the large corporation tax, an increase of \$127 from the recovery recorded as the net result of large corporation tax and losses carried back to prior periods in corporate subsidiaries of InnVest in the same period in 2006. Further, InnVest experienced a \$7.1 million future income tax expense during the six-month period as the result of changes in the income tax legislation related to Real Estate Investment Trusts as compared to a recovery of \$12.9 million in the same period of the prior year resulting from reductions in the corporate income tax rates.

In 2006, 40.5% of the distributions made during that year were not taxable to unitholders. For calendar 2007, the REIT estimates that approximately 40% of unitholder distributions will not be taxable to unitholders.

Net (loss) income from Continuing Operations

InnVest's net loss from continuing operations was \$6.8 million or \$0.122 per unit basic and diluted, compared with a net income from continuing operations in the prior year's period of \$16.8 million or \$0.335 per unit basic and diluted. The decrease of \$23.6 million is the combined result of the recording of a future income tax liability as compared to a recovery in the prior year's period of \$20.0 million, improvements in hotel operating income and the increase in other income and expense discussed above.

Funds from Operations

FFO for the six months ended June 30, 2007 increased \$2.6 million to \$29.9 million or \$0.537 per unit basic (\$0.519 – diluted) from \$27.3 million or \$0.543 per unit basic (\$0.527 – diluted) in the same period of 2006.

Distributable Income

Distributable income for the six months ended June 30, 2007 was \$23.7 million or \$0.425 per unit basic (\$0.422 – diluted). This reflects a \$1.7 million improvement over the distributable income experienced for the same period of the prior year of \$22.0 million or \$0.438 per unit basic (\$0.434 – diluted).

Changes in Financial Condition

The following discussion evaluates the cash flow results of InnVest from operating, financing and investing activities for the six months ended June 30, 2007.

Operating Activities

Funds generated from operating activities decreased \$2.2 million to \$25.4 million for the six months ended June 30, 2007. The increase is mainly attributable to an increase in hotel operating income of \$2.7 million less an increase in the cash portion of interest expense on mortgages and other debt of \$1.6 million, a decrease in the cash portion of convertible debentures interest of \$439, and an increase in corporate and administrative expense of \$1.7 million, plus combined improvements in other business income and other income and current income and capital taxes of \$1.8 million, plus an decrease of \$3.7 million in changes in non-cash working capital including the amount from discontinued operations.

Financing Activities

Funds used in financing activities were \$13.4 million for the six months ended June 30, 2007 compared to funds provided of \$47.7 million for the same period in 2006. The majority of the change relates to:

- A decrease of proceeds from the issuance of convertible debentures of \$75 million;
- A decrease of \$3.8 million in the repayment bank indebtedness;
- An increase in the net of proceeds and repayment of long-term debt of \$10.7 million;
- An increase in the repayment of debt from discontinued operations of \$2.2 million; and
- Decrease in debt issuance costs incurred of \$2.1 million.

Investing Activities

Funds used for investing activities were \$8.4 million during the six months ended June 30, 2007 compared to \$68.1 million in the same period in 2006. The majority of the change relates to:

- Decrease in cash used for hotel acquisitions (including changes in non-cash working capital), hotel under development and other assets of \$54.7 million;
- Sale of discontinued assets of \$6.4 million;
- Increase in capital expenditures of \$2.2 million; and
- Use of \$4.1 million in cash restricted for future furniture, fixtures and equipment and capital expenditures versus \$3.2 million in the prior period.

Management's discussion and analysis

In the six months ended June 30, 2007, InnVest spent \$13.5 million on capital items (2006 – \$11.4 million).

Liquidity and capital resources

Financial Commitments

The following chart summarizes InnVest's future contractual obligations as at June 30, 2007:

	Remainder of 2007	2008	2009	2010	2011	2012 and thereafter	Total
Mortgages payable							
– principal	\$ 3,712	\$ 6,961	\$ 8,055	\$ 149,316	\$ 53,809	\$ 300,506	\$ 522,359
Mortgages payable							
– interest	15,732	31,059	30,599	26,074	19,950	45,896	169,310
Capital lease – principal	236	130	138	146	155	1,383	2,188
Capital lease – interest	70	234	235	239	239	537	1,554
Convertible debentures							
– principal	–	–	–	–	45,764	75,000	120,764
Convertible debentures							
– interest	3,623	7,360	7,360	7,360	5,931	6,750	38,384
Long-term land leases	1,090	2,203	2,203	1,743	1,743	83,888	92,870
Operating equipment and office leases	455	893	814	673	507	2,624	5,966
	\$ 24,918	\$ 48,840	\$ 49,404	\$ 185,551	\$ 128,098	\$ 516,584	\$ 953,395

The next material refinancing is scheduled to occur in 2010 when \$138.8 million of long-term debt with a weighted average interest rate of 6.2% matures. In the second quarter, the REIT completed an early extension of \$147.7 of mortgage debt with a weighted average interest rate of 7.4%, that was to have matured in July 2008, fixing the interest rate on \$130 million at 5.8% for a blended interest rate of 6.2% per annum for a period of seven years and maintained floating rate debt of \$17.7 million, which at current rates bears interest of approximately 6.3% per annum. As part of this early extension, InnVest increased its proceeds by \$25.9 million, which were used to repay the operating loan balance and to fund acquisitions.

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

Distributions to Unitholders

The following chart illustrates the distributable income that the REIT has generated relative to cash distributions paid to unitholders for the twelve months ended June 30, 2007 and for the years ended December 31, 2006, 2005, 2004 and 2003, the period ended December 31, 2002 and the cumulative period from the REIT's inception on July 26, 2002 to June 30, 2007:

	12 months ended June 30, 2007	Years ended December 31			December 31, 2003	Period ended inception to 2002 ⁽¹⁾	Cumulative since March 31, 2007
		2006	2005	2004			
Distributable income ⁽²⁾	\$ 64,418	\$ 62,771	\$ 48,721	\$ 44,269	\$ 39,455	\$ 25,263	\$ 244,149
Distributions	62,245	59,605	52,884	50,164	46,280	20,000	260,306
Distributable income in excess of (less than) distributions	2,173	3,166	(4,163)	(5,895)	(6,825)	5,263	(16,157)
Non-cash distributions made through the distribution reinvestment plan ("DRIP")	7,312	4,166	3,303	3,168	1,367	–	16,938
Distributable income in excess of (less than) cash distributions	\$ 9,485	\$ 7,332	\$ (860)	\$ (2,727)	\$ (5,458)	\$ 5,263	\$ 781
Payout ratios:							
Total distributions	96.6%	95.0%	108.5%	113.3%	117.3%	79.2%	106.6%
Cash distributions (total distributions minus DRIP)	85.3%	88.3%	101.8%	106.2%	113.8%	79.2%	99.7%

(1) For the period from July 26, 2002 to December 31, 2002.

(2) Distributable income is calculated after deducting 4% of total hotel revenues as a reserve for future furniture, fixtures and equipment and capital expenditures.

The REIT's trailing twelve month payout ratio decreased slightly by 0.3% points from 96.9% at March 31, 2007 to 96.6% as a result of increases in distributable income from the hotels acquired after the end of the first quarter in 2006. On a cash basis, the ratio decreased by 3.0% points to at 85.3% because of increased participation in the DRIP program. On a cumulative basis from the inception of the REIT on July 26, 2002, the payout ratio has been 106.6% or 99.7% on a cash basis. Liquidity to fund distributions is generated from cash flow from operations, cash on hand, bank operating lines available and by the ability to finance certain unencumbered or under-leveraged assets.

Distributions to unitholders are approved by the REIT's Board of Trustees. In exercising their discretion to approve the level of distributions, the Trustees use forecasts prepared by management and other financial information to determine if sufficient cash flow will be available to fund distributions. Such financial information is subject to change due to the nature of the Canadian hotel industry which can be difficult to predict even in the short-run. This is due to the following factors:

1. Its exposure to the overall cyclical effects of the Canadian business environment,
2. The seasonal nature of the REIT's business,
3. The REIT's geographical diversity. InnVest's hotels are located in numerous regions throughout Canada each with its own unique characteristics,
4. Changing customer sentiment toward brands which the REIT's hotel properties use,
5. Changes in customer segmentation due to changing social, economic and political conditions, and
6. Numerous other macroeconomic, social and geopolitical factors which are beyond the control of the REIT.

Management's discussion and analysis

All of these factors can have a material effect on the REIT's revenue and cost structure. An example is the significant impact of SARS on the Canadian hotel industry in 2003. As a result of the REIT's exposure to numerous factors which are beyond its control, it is difficult for management of the REIT to make predictions concerning distribution levels for future quarters. Therefore, management asserts that it would not be prudent to provide investors or potential investors with forward-looking information regarding distribution levels.

Capital Resources

The REIT's cash position at June 30, 2007 was \$8.7 million, of which \$567 is restricted under the REIT's trust indenture for the replacement of furniture, fixtures, and equipment and for capital improvements.

InnVest sets aside 4% of total hotel revenue and certain amounts required for hotel acquisitions for replacing furniture, fixtures and equipment and capital improvements. Capital expenditures committed and yet to be incurred at June 30, 2007 were \$1.0 million. The current expectation is that capital spending on the hotel portfolio owned at June 30, 2007 will be approximately \$24 million for the year ending December 31, 2007.

The following chart shows the changes in the restricted cash balance for the three and six months ended June 30, 2007 along with the comparable periods:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Opening balance	\$ 2,373	\$ 4,406	\$ 4,693	\$ 6,079
4% of revenues	4,459	3,899	8,079	6,954
Adjustment – discontinued operations		(12)		(12)
Transferred from operating cash	1,302	–	1,302	–
Initial reserve – Hotels Acquired	–	1,200	–	1,200
Capital expenditures	(7,567)	(6,623)	(13,507)	(11,351)
Closing balance	\$ 567	\$ 2,870	\$ 567	\$ 2,870

InnVest is not permitted to exceed certain financial leverage amounts under the terms of the Declaration of Trust. The REIT is permitted to hold indebtedness excluding convertible debentures up to a level of 50% of gross book value. InnVest calculates indebtedness in accordance with GAAP excluding non-interest bearing indebtedness, trade accounts payable, and any future income tax liability. InnVest calculates gross book value as the total book value of assets on the REIT's balance sheet, plus the amount of accumulated depreciation and amortization, less any future income tax liabilities. Further, the REIT is permitted to have indebtedness and convertible debentures up to a level of 60% of gross asset value. At June 30, 2007, the REIT's leverage excluding and including convertible debentures was 41.0% and 50.5% respectively.

The REIT also had unused operating loan availability of \$25 million at June 30, 2007 and eight hotel properties which remain unencumbered. The REIT estimates that the unencumbered hotels could generate approximately \$45 million in mortgage proceeds. The REIT also has an unused acquisition facility of \$40 million available to acquire hotel properties and an unused loan facility of \$29.1 million available to fund capital expenditures.

During the six months ended June 30, 2007, the REIT distributed \$31.4 million or \$0.5625 per unit, of which \$4.9 million was distributed in units as part of the Distribution Reinvestment Plan ("DRIP"), at the rate of \$0.09375 per unit per month. A regular monthly distribution of \$0.09375 per unit for the month of June 2007 was paid in July 2007. A distribution at the same rate for July 2007 was declared and will be payable on August 15, 2007.

InnVest expects to make cash distributions based on cash flow to be generated from operations and its borrowing capacity. Future growth is expected to be funded from borrowing capacity and through the issuance of trust units.

Equity

At June 30, 2007 a total of 56,265,058 units of the REIT were outstanding. There is only one class of trust units, with each unit eligible for one vote. For the six months ended June 30, 2007 and subsequent, units of the REIT were issued as follows:

	Units	Amount
Balance at December 31, 2006	55,045,351	\$ 543,363
<i>First quarter activity of Units issued</i>		
DRIP	160,050	2,191
Executive compensation plan	20,139	275
Trustee compensation plan	1,650	23
Conversion of debentures	384,720	4,908
Balance at March 31, 2007	55,611,910	\$ 550,760
<i>Activity subsequent to March 31, 2007</i>		
DRIP	207,068	2,743
Conversion of debentures	446,080	5,697
Balance at June 30, 2007	56,265,058	\$ 559,200
<i>Activity subsequent to June 30, 2007</i>		
DRIP	75,631	923
Balance at August 8, 2007	56,340,689	\$ 560,123

A total of \$45.8 million of the Series A – 6.25% Debentures remained outstanding at June 30, 2007. 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 of each year and are due April 15, 2011. No further debentures were converted into units of InnVest subsequent to June 30, 2007. The trust units to be issued upon conversion of the Series A – 6.25% Debentures outstanding at June 30, 2007 are 3,661,120. A total of \$5.8 million in Series A – 6.25% Debentures were converted into 466,080 units during the quarter.

A total of \$75 million of the Series B – 6.00% Debentures remained outstanding at June 30, 2007. The Series B – 6.00% Debentures are convertible into trust units at a strike price of \$14.90, bear interest at 6.00% per annum payable semi-annually on May 31 and November 30 of each year and are due May 31, 2013. The trust units to be issued upon conversion of the Series B – 6.00% Debentures total 5,033,557.

Risks and uncertainties

InnVest's risks and uncertainties remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Proposed Tax Changes to Income Trusts

InnVest currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, InnVest intends to distribute all taxable income to its unitholders and to deduct these distributions for income tax purposes.

In June 2007, a Bill was enacted for the taxation of publicly traded trusts, including income trusts (the "Bill"). The Bill would apply to publicly traded trusts which existed prior to November 1, 2006 starting with taxation years ending in 2011, except for those existing trusts that qualify for the real estate investment trust ("Qualifying REIT") exception included in the legislation. There are certain circumstances where an existing trust may lose its relief in the interim periods to 2011 where it undergoes "undue expansion".

Management's discussion and analysis

The Bill contemplates that a REIT which carries on Canadian hotel operations (including through subsidiaries) will not be a Qualifying REIT. As a result, InnVest will be subject to tax starting January 1, 2011 and has recognized a future income tax liability, in the second quarter, of \$122.6 million mainly resulting from temporary differences on hotel properties and licence contracts which are expected to reverse subsequent to January 1, 2011. For the six months ended June 30, 2007, InnVest's future income tax liability has increased by \$7.1 million mainly due to the difference between the reduction of the future income tax liability regarding the reorganization completed on January 2, 2007 and the increase in the future income tax liability regarding the enactment of the Bill. As well, the Bill may adversely affect the level of cash distribution to unitholders commencing in 2011 if InnVest does not become a Qualifying REIT by then.

Management is reviewing whether it is feasible to reorganize InnVest so that non-qualifying operations and assets are transferred under a plan of arrangement to a taxable entity that is held by InnVest unitholders, and the InnVest hotels, which continue to be owned by it, are leased by it to the taxable entity. It is not possible at this preliminary juncture to provide any assurances that any such reorganization or a similar reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to InnVest and its unitholders.

Outlook

InnVest experienced significant improvements in RevPAR in its hotel in the Western and Atlantic regions, which allowed InnVest to grow its RevPAR in the second quarter on a same hotel basis, while the contribution from the hotels acquired in 2006 during or after the second quarter allowed InnVest to grow its funds from operations and distributable income. Further increases are expected for the remainder of the year as InnVest approaches the highest cash generating third quarter and benefits from the hotels acquired in the third quarter of 2006.

The hotels to be acquired through the participation in the acquisition of Legacy will expand InnVest's presence in Western Canada, which will contribute to growth in funds from operations and distributable income on an absolute basis immediately and on a per unit basis annually in the next 12-24 months. Given that the acquisition is scheduled to close late in the third quarter or early in the fourth quarter, the contribution on a per unit basis for 2007 is expected to be dilutive due to the seasonality inherent in the hotel business.

The Canadian hospitality industry is performing as anticipated with RevPAR growth in all regions and particularly strong growth in western provinces. PKF Consulting Inc., ("PKF") lodging industry experts continue to forecast a 4% increase in RevPAR in 2007 due to the growth in demand continuing to outpace supply. Accordingly, InnVest is expecting growth within its Base Portfolio and from its 2006 Acquisitions. InnVest's hotels located in certain markets, such as Windsor, Oshawa, the GTA and Montréal, have experienced declines in room revenue in the second quarter. In response, concentrated sales efforts and additional cost control measures are being undertaken in these markets. This has been somewhat offset by strong performance in many other markets of Ontario and Québec where the industry fundamentals remain strong, further demonstrating the benefit of the geographic diversity of InnVest's hotel portfolio.

InnVest expects to continue to benefit from the anticipated growth in the hospitality industry, our ability to manage costs, our ability to capitalize on acquisition opportunities and re-financing activities completed in the second quarter.

Significant accounting policies

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 revenue by charging monthly royalty fees to licenced hotel owners based on a percentage the licenced hotels' revenue and by selling franchises. Under the terms of the joint venture agreement between Choice Hotels 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 on a net basis for the three and six months ended June 30, 2007 totaled \$136 and \$272 respectively.

Hotel Management

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 unit-holder 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-competitive arrangements for limited service hotels in Canada. The Agreements provide for the payment of an annual management fee to Westmont equal to 3.375% of gross hotel revenue during the term of the Agreements, including renewal periods. In addition, Westmont may receive an annual incentive fee if the REIT achieves distributable income in excess of \$1.25 per unit. No management incentive fees were paid in the three or six months ended June 30, 2007.

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. Also, for certain hotels owned by InnVest and not managed by Westmont, Westmont is entitled to an asset management fee based on a fixed percentage of the purchase price of the hotel.

Total management fees paid to Westmont for the three and six months ended June 30, 2007 were \$4.3 million and \$7.9 million respectively.

Hedging Transactions

InnVest’s hedging transactions remain substantially unchanged from the description provided in the MD&A for the year ended December 31, 2006.

Critical Accounting Estimates

There have been no changes in InnVest’s critical accounting estimates since December 31, 2006 and management is not anticipating any significant changes for the remainder of the year. A description of the REIT’s significant accounting policies is summarized in Note 2 to the consolidated financial statements.

Changes in Significant Accounting Policies

Comprehensive Income

Effective January 1, 2007, the REIT adopted the new Canadian Institute of Chartered Accountants (“CICA”) recommendations under Section 1530 that comprehensive income includes net earnings and other comprehensive income (“OCI”), which represents changes in the unitholders’ equity during a period arising from transactions and other events with non-owners sources. The standard requires prospective application and accordingly, comparative amounts for prior periods, if any, have not been restated. For the three and six months ended June 30, 2007, there is no difference between the REIT’s Consolidated Statement of Net (Loss) Income and Statement of Comprehensive (Loss) Income.

Financial Instruments

Effective January 1, 2007, the REIT adopted several new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments and Measurement. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. This standard requires a prospective application and accordingly, comparative amounts for prior periods, if any, have not been restated.

Management's discussion and analysis

As a result of implementing this Section, the REIT has recorded the interest expense for both the mortgage debt and convertible debentures, using the effective interest method ("EIM"). Transaction costs that are directly attributable to the issue of financial instruments classified as other than "held-for-trading" are included in the initial carrying value of such instruments and amortized using the EIM, therefore the deferred financing costs which were related to these instruments were re-classed to the appropriate debt on the balance sheet. The amortization of these costs is included in interest expense in the financial statements, in a manner that yields a constant rate of interest over the life of the respective financial instrument, for the three and six months ended June 30, 2007. An adjustment has been made to the opening cumulative net income in the amount of \$654 to reflect the application of the EIM.

In accordance with Section 3855, the REIT conducted a search for embedded derivatives in all contractual arrangements dated subsequent to October 31, 2002 and identified embedded features that required separate presentation, but they have zero fair value.

With the introduction of the new standards relating to financial instruments – Section 3251, that establishes standards for the presentation of equity and changes in equity during the reporting period, the equity is presented as accumulated net income (loss) and other comprehensive income (loss), distributions and total deficit.

Controls and Procedures

Internal Controls over Financial Reporting

The REIT did not make any changes to its internal controls over financial reporting during the three and six months ended June 30, 2007, that have materially affected, or are reasonably likely to affect those controls. However, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The inherent limitations in all controls systems ensure that no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgment could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of material errors.

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

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)

June 30, 2007

December 31, 2006

(Unaudited)

Assets

Current Assets

Cash	\$	8,128	\$	4,531
Accounts receivable		15,501		13,242
Prepaid expenses and other assets		10,295		5,627
Assets held for sale (Note 19)		24		42
		33,948		23,442
Restricted cash		567		4,693
Hotel properties (Note 3)		1,127,365		1,136,730
Other real estate properties (Note 4)		16,742		16,933
Licence contracts (accumulated amortization \$6,493; December 31, 2006 – \$5,835)		19,827		20,485
Other assets (Note 5)		11,889		19,067
Assets held for sale (Note 19)		–		5,566
	\$	1,210,338	\$	1,226,916

Liabilities

Current Liabilities

Bank indebtedness (Note 6)	\$	–	\$	3,300
Accounts payable and accrued liabilities		43,268		41,515
Distributions payable		5,275		5,161
Current portion of long-term debt (Note 7)		7,049		11,434
Liabilities related to assets held for sale (Note 19)		39		139
		55,631		61,549
Long-term debt (Note 7)		511,080		490,998
Other long-term obligations (Note 8)		4,231		4,535
Convertible debentures (Note 9)		112,460		126,339
Future income tax liability (Note 10)		131,849		124,759
Long-term debt related to assets held for sale (Note 19)		–		2,191
		815,251		810,371
Unitholders' equity		395,087		416,545
	\$	1,210,338	\$	1,226,916

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

Consolidated statements of net income (loss) and comprehensive income (loss)

(in thousands of dollars, except per unit amounts) (Unaudited)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (Restated) (Note 19)	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (Restated) (Note 19)
Total revenues (reference only) (Note 17)	\$ 113,872	\$ 98,820	\$ 205,952	\$ 175,596
Hotel revenues	\$ 111,467	\$ 97,242	\$ 201,493	\$ 173,146
Hotel expenses				
Operating expenses (Note 15)	63,750	52,454	123,638	100,574
Property taxes, rent and insurance	9,588	8,733	19,059	17,377
Management fees (Note 15)	3,734	3,282	6,778	5,843
	77,072	64,469	149,475	123,794
Hotel operating income	34,395	32,773	52,018	49,352
Other (income) and expenses				
Interest on mortgages and other debt	8,750	7,474	17,554	14,497
Convertible debentures interest and accretion	2,186	2,592	4,613	5,034
Corporate and administrative (Note 15)	1,548	1,300	4,115	2,373
Capital tax	24	411	48	822
Other business income, net (Note 18)	(1,321)	(865)	(2,369)	(1,351)
Other income	(64)	(108)	(121)	(123)
Depreciation, amortization and accretion	14,106	12,547	27,856	24,292
	25,229	23,351	51,696	45,544
Income before income tax expense (recovery)	9,166	9,422	322	3,808
Income tax expense (recovery) (Note 10)				
Current	-	(197)	-	(127)
Future	122,626	(12,684)	7,090	(12,906)
	122,626	(12,881)	7,090	(13,033)
Net (loss) income from continuing operations	(113,460)	22,303	(6,768)	16,841
(Loss) income from discontinued operations (Note 19)	(5)	63	(24)	(36)
Gain on sale (writedown) of assets held for sale (Note 19)	174	(1,000)	833	(1,000)
	169	(937)	809	(1,036)
Net (loss) income and comprehensive (loss) income	\$ (113,291)	\$ 21,366	\$ (5,959)	\$ 15,805
Net (loss) income from continuing operations, per unit (Note 13)				
Basic	\$ (2.026)	\$ 0.443	\$ (0.122)	\$ 0.335
Diluted	\$ (2.026)	\$ 0.412	\$ (0.122)	\$ 0.335
Net (loss) income and comprehensive (loss) income per unit (Note 13)				
Basic	\$ (2.023)	\$ 0.424	\$ (0.107)	\$ 0.315
Diluted	\$ (2.023)	\$ 0.396	\$ (0.107)	\$ 0.314
Net income (loss) from discontinued operations, per unit				
Basic	\$ 0.003	\$ (0.019)	\$ 0.015	\$ (0.020)
Diluted	\$ 0.003	\$ (0.019)	\$ 0.015	\$ (0.021)

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

Consolidated statements of unitholders' equity

(in thousands of dollars) (Unaudited)	Accumulated Net Income (Loss) and Comprehensive Income (Loss)	Distributions	Deficit	Units in \$	Executive and Trustee Compensation	Holders' Conversion Option	Total
Balance December 31, 2005	\$ 57,033	\$(169,328)	\$(112,295)	\$ 464,164	\$ 186	\$ 5,588	\$ 357,643
Changes during the period							
Net income and							
comprehensive income	15,805	-	15,805	-	-	-	15,805
Unit distributions (Note 14)	-	(28,733)	(28,733)	-	-	-	(28,733)
Distribution reinvestment							
plan units issued	-	-	-	1,788	-	-	1,788
Conversion of debentures (Note 9)	-	-	-	68,988	-	(2,556)	66,432
Redemption of debentures (Note 9)	-	-	-	4,719	-	(172)	4,547
Issue of new debentures (Note 9)	-	-	-	-	-	3,400	3,400
Vested executive compensation	-	-	-	152	(152)	-	-
Executive and							
trustee compensation	-	-	-	53	122	-	175
Balance June 30, 2006	\$ 72,838	\$(198,061)	\$(125,223)	\$ 539,864	\$ 156	\$ 6,260	\$ 421,057
Balance December 31, 2006	\$ 95,629	\$(228,933)	\$(133,304)	\$ 543,363	\$ 278	\$ 6,208	\$ 416,545
Change in accounting policy for							
financial instruments (Note 2)	654	-	654	-	-	-	654
Balance January 1, 2007	\$ 96,283	\$(228,933)	\$(132,650)	\$ 543,363	\$ 278	\$ 6,208	\$ 417,199
Changes during the period							
Net loss and comprehensive loss	(5,959)	-	(5,959)	-	-	-	(5,959)
Unit distributions (Note 14)	-	(31,373)	(31,373)	-	-	-	(31,373)
Distribution reinvestment							
plan units issued	-	-	-	4,934	-	-	4,934
Conversion of debentures (Note 9)	-	-	-	10,605	-	(519)	10,086
Vested executive compensation	-	-	-	275	(275)	-	-
Executive and							
trustee compensation	-	-	-	23	177	-	200
Balance June 30, 2007	\$ 90,324	\$(260,306)	\$(169,982)	\$ 559,200	\$ 180	\$ 5,689	\$ 395,087

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

Consolidated statements of cash flows

(in thousands of dollars, except per unit amounts) (Unaudited)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006 (Restated)	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 (Restated)
Operating activities				
Net (loss) income from continuing operations	\$ (113,460)	\$ 22,303	\$ (6,768)	\$ 16,841
Add (deduct) items not affecting operations				
Depreciation, amortization and accretion	14,106	12,547	27,856	24,292
Non-cash portion of interest expense	751	–	1,477	–
Future income tax expense (recovery)	122,626	(12,684)	7,090	(12,906)
Non-cash executive and trustee compensation	112	84	200	175
Convertible debentures accretion	190	204	402	384
Discontinued operations	(336)	159	(107)	102
Changes in non-cash working capital	(683)	(4,026)	(4,749)	(1,267)
	23,306	18,587	25,401	27,621
Financing activities				
Repayment of long-term debt	(3,597)	(2,133)	(5,996)	(4,279)
Proceeds from long-term debt	25,924	13,500	25,924	13,500
Issue of convertible debentures	–	75,000	–	75,000
Unit distributions	(12,990)	(13,447)	(26,326)	(26,306)
Decrease in bank indebtedness	(22,000)	(16,300)	(3,300)	(7,100)
Discontinued operations repayment of debt	(1,171)	(16)	(2,191)	(34)
Debt issue costs	(1,311)	(2,946)	(1,311)	(3,415)
Changes in non-cash working capital related to financing activities	(165)	258	(165)	365
	(15,310)	53,916	(13,365)	47,731
Investing activities				
Capital expenditures on hotel properties	(7,567)	(6,600)	(13,507)	(11,324)
Discontinued operations capital expenditures	–	(23)	–	(27)
Hotel under development expenditures	(1,978)	–	(2,872)	–
Sale of assets held for sale, net of costs (Note 19)	4,300	–	6,400	–
Other assets	(1,584)	647	(1,995)	(176)
Acquisition of hotel properties and other real estate properties	–	(59,537)	–	(62,811)
Changes in restricted cash	1,806	1,536	4,126	3,209
Collection of vendor-take-back mortgage	–	–	–	200
Changes in non-cash working capital related to investing activities	(164)	3,172	(591)	2,789
	(5,187)	(60,805)	(8,439)	(68,140)
Increase in cash during the period	2,809	11,698	3,597	7,212
Cash, beginning of period	5,319	1,407	4,531	5,893
Cash, end of period	\$ 8,128	\$ 13,105	\$ 8,128	\$ 13,105
Supplemental disclosure of cash flow information:				
Cash paid for interest	\$ 12,491	\$ 11,576	\$ 21,287	\$ 18,755
Cash paid for income taxes (including capital tax)	\$ 70	\$ 85	\$ 139	\$ 510

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

Notes to consolidated financial statements

June 30, 2007 (all dollar amounts are in thousands, except unit and per unit amounts) (Unaudited)

Note 1. Basis of Presentation

InnVest Real Estate Investment Trust (“InnVest” or the “REIT”) is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. The units of the REIT are traded on the Toronto Stock Exchange under the symbol of “INN.UN”. As at June 30, 2007, the REIT owned 135 Canadian hotels with 15,476 guest rooms operated under international brands and has a 50% interest in Choice Hotels Canada Inc. (“CHC”).

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 for the year ended December 31, 2006, except as disclosed in Note 2. These financial statements do not include all the information and disclosure required by 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.

Note 2. Changes in Accounting Policies

The accounting policies followed in preparation of these financial statements are consistent with those as set out in the audited financial statements for the year ended December 31, 2006, except as follows:

Comprehensive Income

Effective January 1, 2007, the REIT adopted the new Canadian Institute of Chartered Accountants (“CICA”) recommendations under Section 1530 – Comprehensive Income, wherein comprehensive income includes net earnings and other comprehensive income (“OCI”), which represents changes in the unitholders’ equity during a period arising from transactions and other events with non-owner sources. The standard requires prospective application and; accordingly, comparative amounts for prior periods, if any, have not been restated. For the period ended June 30, 2007, there is no difference between the REIT’s Consolidated Statement of Net Income (Loss) and its Statement of Comprehensive Income (Loss).

Financial Instruments – Recognition and Measurement

Effective January 1, 2007, the REIT adopted several new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments, Recognition and Measurement. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. This standard requires a prospective application and accordingly, comparative amounts for prior periods, if any, have not been restated.

As a result of implementing Section 3855, the REIT has recorded the interest expense for both the mortgage debt and convertible debentures, using the effective interest method (“EIM”). Transaction costs that are directly attributable to the issue of financial instruments classified as other than “held-for-trading” are included in the initial carrying value of such instruments and amortized using the EIM; therefore, the deferred financing costs which were related to these instruments were reclassified to the appropriate debt on the balance sheet. The amortization of these costs is included in interest expense in the financial statements in a manner that yields a constant rate of interest over the life of the respective financial instrument, for the six months ended June 30, 2007. An adjustment has been made to the opening cumulative net income in the amount of \$654 to reflect the application of the EIM.

Notes to consolidated financial statements

In accordance with Section 3855, the REIT conducted a search for embedded derivatives in all contractual arrangements dated subsequent to October 31, 2002 and identified certain embedded features that required separate presentation, however, all embedded features were determined to have a fair value of zero.

With the introduction of the new standards relating to financial instruments, Section 3251 – Equity was applied effective January 1, 2007. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. Equity is presented as accumulated net income (loss) and other comprehensive income (loss), distributions and total deficit.

Note 3. Hotel Properties

	Cost	Accumulated Depreciation	June 30, 2007 Net Book Value	December 31, 2006 Net Book Value
Land	\$ 94,834	\$ –	\$ 94,834	\$ 94,623
Buildings	1,091,420	115,126	976,294	987,415
Furniture, fixtures and equipment	122,483	69,460	53,023	54,350
	\$1,308,737	\$ 184,586	\$1,124,151	\$ 1,136,388
Hotel under development	3,214	–	3,214	342
	\$1,311,951	\$ 184,586	\$1,127,365	\$ 1,136,730

Note 4. Other Real Estate Properties

	Cost	Accumulated Depreciation	June 30, 2007 Net Book Value	December 31, 2006 Net Book Value
Land	\$ 1,675	\$ –	\$ 1,675	\$ 1,675
Buildings	15,447	426	15,021	15,220
Furniture, fixtures and equipment	59	13	46	38
	\$ 17,181	\$ 439	\$ 16,742	\$ 16,933

Other real estate includes office and retail properties and a retirement residence which were acquired during the year ended December 31, 2006.

Note 5. Other Assets

	Cost	Accumulated Amortization	June 30, 2007 Net Book Value	December 31, 2006 Net Book Value
Deferred financing (Note 2)	\$ –	\$ –	\$ –	\$ 7,938
Other assets	15,395	3,506	11,889	11,129
	\$ 15,395	\$ 3,506	\$ 11,889	\$ 19,067

In accordance with the new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments and Measurement, the unamortized balance of deferred financing costs was reallocated as a reduction to long-term debt effective January 1, 2007.

Note 6. Bank Indebtedness

The REIT has a \$25,000 operating loan facility that bears interest at Canadian bank prime plus 0.5% or Canadian Bankers' Acceptance rate plus 1.5%. It is secured by nine properties and is payable on demand. At June 30, 2007, the REIT had drawn \$ nil on this facility (December 31, 2006 – \$3,300).

Note 7. Long-term Debt

	June 30, 2007	December 31, 2006
Mortgages payable	\$ 522,359	\$ 502,432
Less debt issuance costs, net	(4,230)	–
Total long-term debt	518,129	502,432
Less current portion	(7,049)	(11,434)
Net long-term debt	\$ 511,080	\$ 490,998

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At June 30, 2007, long-term debt had a weighted average interest rate of 6.0% (December 31, 2006 – 6.5%) and a weighted average effective interest rate of 6.2%. The long-term debt is repayable in average monthly payments of principal and interest totalling \$3,249 (December 31, 2006 – \$3,495) per month, and matures at various dates from April 28, 2007 to September 1, 2015.

In accordance with the new CICA recommendations related to accounting for Financial Instruments, including Section 3855 – Financial Instruments and Measurement, the unamortized balance of deferred financing costs was reallocated from long-term assets as a reduction to long-term debt effective January 1, 2007.

Scheduled repayment of long-term debt is as follows:

2007 (remainder of the year)	\$ 3,712
2008	6,961
2009	8,055
2010	149,316
2011	53,809
2012 and thereafter	300,506
	\$ 522,359

The current portion of long-term debt on the balance sheet is based on the year ending June 30, 2008, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of the REIT's long-term debt at June 30, 2007 was approximately \$516,658 (December 31, 2006 – \$507,243). 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 \$69,080 (December 31, 2006 – \$68,305) of mortgages payable which are subject to floating interest rates. Interest expense will increase by \$691 for every 1% increase in the base Bankers' Acceptance rate.

In the second quarter, the REIT completed an early extension of \$147,665 of mortgage debt that was to have matured on July 26, 2008, fixing the interest rate on \$130,000 at 5.8% for a blended interest rate of 6.17% per annum for a period of seven years, and maintained floating rate debt of \$17,665 which, at current rates, bears interest at approximately 6.3% per annum. As part of this early extension, the REIT increased its fixed-rate proceeds by \$25,924 which was used to repay the operating loan balance and to fund potential acquisitions.

Notes to consolidated financial statements

Note 8. Other Long-term Obligations

	June 30, 2007	December 31, 2006
Capital lease	\$ 1,858	\$ 1,861
Other lease obligations	329	299
	2,187	2,160
Less current portion (included in accounts payable and accrued liabilities)	(223)	(207)
Total long-term obligations	1,964	1,953
Pension liability	869	1,212
Asset retirement obligation	1,398	1,370
Total other long-term obligations	\$ 4,231	\$ 4,535

Defined Benefit Pension Plan

Defined benefit pension plan was assumed pursuant to the acquisition of certain hotels in 2006. The most recent actuarial valuation with respect to the funding of the REIT's pension plans was prepared on June 30, 2007. The pension plan assets and liabilities as at June 30, 2007 consist of the following:

	Management Pension Benefit Plans	Non-Union Non-Management Pension Benefit Plans	June 30, 2007 Total Benefit Plans	December 31, 2006 Total Benefit Plans
Accrued benefit obligation	\$ 2,513	\$ 1,623	\$ 4,136	\$ 3,873
Fair value of plan assets	1,960	1,307	3,267	2,661
Funded status – plan deficit	553	316	869	1,212
Unamortized net actuarial gain	215	173	388	167
Accrued employee future benefit liability	\$ 768	\$ 489	\$ 1,257	\$ 1,379

Note 9. Convertible Debentures

The details of the two series of convertible debentures are outlined in the tables below:

Debenture	Maturity Date	Interest Rate	Effective Interest Rate	Original Face Amount	Converted to Trust Units	Face Amount Outstanding	Holders' Conversion Option	Deferred Financing	June 30, 2007	
Series A	April 15, 2011	6.25%	7.07%	\$ 57,500	\$ (11,736)	\$ 45,764	\$ (2,289)	\$ 1,036	\$ (1,546)	\$ 42,965
Series B	May 31, 2013	6.00%	6.79%	75,000	–	75,000	(3,400)	543	(2,648)	69,495
				\$ 132,500	\$ (11,736)	\$ 120,764	\$ (5,689)	\$ 1,579	\$ (4,194)	\$ 112,460

Debenture	Maturity Date	Interest Rate	Original Face Amount	Converted to Trust Units	Face Amount Outstanding	Holders' Conversion Option	Deferred Financing	December 31, 2006
Series A	April 15, 2011	6.25%	\$ 57,500	\$ (1,351)	\$ 56,149	\$ (2,808)	\$ 1,096	\$ 54,437
Series B	May 31, 2013	6.00%	75,000	–	75,000	(3,400)	302	71,902
			\$ 132,500	\$ (1,351)	\$ 131,149	\$ (6,208)	\$ 1,398	\$ 126,339

Note 10. Income Taxes and Future Income Tax Liability

Future income taxes are the result of temporary differences between tax bases of assets and liabilities and their carrying amounts for accounting purposes. Such temporary differences are then measured using substantively enacted tax rates that will be in effect when these differences are expected to reverse.

InnVest currently qualifies as a Mutual Fund Trust for income tax purposes. As required by its Declaration of Trust, InnVest intends to distribute all taxable income to its unitholders and to deduct these distributions for income tax purposes.

In June 2007, a Bill was enacted for the taxation of publicly traded trusts, including income trusts (the “Bill”). The Bill applies to publicly traded trusts which existed prior to November 1, 2006 starting with taxation years ending in 2011, except for those existing trusts that qualify for the real estate investment trust (“Qualifying REIT”) exception included in the legislation. There are certain circumstances where an existing trust may lose its relief in the interim periods to 2011 where it undergoes “undue expansion”.

Pursuant to the legislation, a REIT which carries on Canadian hotel operations (including through subsidiaries) will not be a Qualifying REIT. As a result, InnVest will be subject to tax starting January 1, 2011 and has recognized a future income tax liability, in the second quarter, of \$122,626 mainly resulting from temporary differences on hotel properties and licence contracts which are expected to reverse subsequent to January 1, 2011. For the six months ended June 30, 2007, InnVest’s future income tax liability has increased by \$7,090 mainly due to the difference between the reduction of the future income tax liability regarding the reorganization completed on January 2, 2007, and the increase in the future income tax liability related to the enactment of the Bill. As well, the Bill may adversely affect the level of cash distribution to unitholders commencing in 2011 if InnVest does not become a Qualifying REIT by then.

Management is reviewing whether it is feasible to reorganize InnVest so that non-qualifying operations and assets are transferred under a plan of arrangement to a taxable entity that is held by InnVest unitholders, and that the InnVest hotels, which continue to be owned by the REIT, are leased by it to the taxable entity. It is not possible at this preliminary juncture to provide any assurances that any such reorganization or a similar reorganization can or will be implemented before 2011, or that any such reorganization, if implemented, would not result in material costs or other adverse consequences to InnVest and its unitholders.

Note 11. Commitments

During the first quarter of 2007, InnVest entered into a contract to purchase three hotels with a total of 349 rooms for a combined purchase price of \$48,300 plus transaction costs. The transaction to acquire these new build hotel properties will close in stages as the construction of each hotel is completed which is scheduled during the third quarter. The hotels include a 117 room Staybridge Suites located in London, Ontario, a 116 room Staybridge Suites located in Guelph, Ontario and a 116 room Holiday Inn Express located in North Bay, Ontario. (See note 21)

Note 12. 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 as at December 31, 2005	47,961,163	\$ 464,164
Units issued under distribution reinvestment plan	150,366	1,788
Units issued on conversion of debentures	6,250,412	68,988
Units issued on redemption of debentures	392,307	4,719
Units issued for vested executive compensation	12,218	152
Units issued under trustee compensation plan	4,178	53
Balance at June 30, 2006	54,770,644	\$ 539,864

Note 12. Unitholders' Equity (continued)

Balance at December 31, 2006	55,045,351	543,363
Units issued on conversion of debentures	830,800	10,605
Units issued under distribution reinvestment plan	367,118	4,934
Units issued for vested executive compensation	20,139	275
Units issued under trustee compensation plan	1,650	23
Balance at June 30, 2007	56,265,058	\$ 559,200

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. The balance in this reserve account at June 30, 2007 is 52,428 units. Under the Trustee Compensation Plan, 1,650 units were issued during the six months ended June 30, 2007 (June 30, 2006 – 4,178 units).

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. The balance in this reserve account at June 30, 2007 is 852,067 units. A unit granted through the plan entitles the holder to receive, on the vesting date, the then current fair market value of the unit plus the value of the cash distributions that would have been paid on the unit if it had been issued on the date of grant assuming the reinvestment of the distribution into REIT units. The payment will be satisfied through the issuance of units.

The following table summarizes the status of the executive compensation plan at June 30, 2007, excluding granted units which have fully vested:

	Unvested Executive units	Units Accumulated from Distributions	Total Units
January 1, 2004 – granted	10,218	3,632	13,850
January 1, 2005 – granted	13,118	3,268	16,386
January 1, 2006 – granted	12,968	1,797	14,765
January 1, 2007 – granted	15,000	624	15,624
January 1, 2007 – units vested	(5,109)	(1,675)	(6,784)
	46,195	7,646	53,841

On March 30, 2007 the Board of Trustees approved the granting of 15,000 units effective as of January 1, 2007. These units vest equally on the third and fourth anniversaries of the effective date of grant.

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.

Note 13. Per Unit Information

	Three Months Ended June 30, 2007		Three Months Ended June 30, 2006	
		Weighted Average Units		Weighted Average Units
Net (loss) income from				
continuing operations – basic	\$ (113,460)	56,002,020	\$ 22,303	50,370,723
Convertible debentures	–	–	2,592	10,023,052
Dilutive effect of executive compensation plan	–	–	–	53,814
Net (loss) income from				
continuing operations – diluted	\$ (113,460)	56,002,020	\$ 24,895	60,447,589
	Six Months Ended June 30, 2007		Six Months Ended June 30, 2006	
		Weighted Average Units		Weighted Average Units
Net (loss) income from				
continuing operations – basic	\$ (6,768)	55,631,950	\$ 16,841	50,236,267
Dilutive effect of executive compensation plan	–	52,769	–	53,209
Net (loss) income from				
continuing operations – diluted	\$ (6,768)	55,684,719	\$ 16,841	50,289,476
	Three Months Ended June 30, 2007		Three Months Ended June 30, 2006	
		Weighted Average Units		Weighted Average Units
Net (loss) income and				
comprehensive (loss) income – basic	\$ (113,291)	56,002,020	\$ 21,366	50,370,723
Convertible debentures	–	–	2,592	10,023,052
Dilutive effect of executive compensation plan	–	–	–	53,814
Net (loss) income and				
comprehensive (loss) income – diluted	\$ (113,291)	56,002,020	\$ 23,958	60,447,589
	Six Months Ended June 30, 2007		Six Months Ended June 30, 2006	
		Weighted Average Units		Weighted Average Units
Net income (loss) and				
comprehensive income (loss) – basic	\$ (5,959)	55,631,950	\$ 15,805	50,236,267
Dilutive effect of executive compensation plan	–	52,769	–	53,209
Net income (loss) and				
comprehensive income (loss) – diluted	\$ (5,959)	55,684,719	\$ 15,805	50,289,476

All of the convertible debentures have been included in the three months ended June 30, 2006 per unit calculations above, but have been excluded in the other calculations because the impact of the conversions would not be dilutive and the dilutive effect of the executive compensation plan has been excluded in some of the calculations as the impact of the conversions would not be dilutive.

Note 14. Distributions to Unitholders

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

Distributable income is a measure of cash flow that is not defined under Canadian GAAP, 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 GAAP for calculating earnings per unit.

Distributable income is defined as net income in accordance with Canadian GAAP, 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) expense, 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, the accretion on convertible debentures that is included in the computation of net income, and making any other adjustments determined by the trustees of the REIT in their discretion. As outlined in the Declaration of Trust, the REIT is required to distribute monthly to unitholders not less than one-twelfth of eighty percent (80%) of distributable income of the REIT for the calendar year.

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Net (loss) income and comprehensive (loss) income	\$ (113,291)	\$ 21,366
Add (deduct)		
Depreciation, amortization and accretion	14,106	12,630
Non-cash portion of interest expense	751	–
Future income tax recovery	122,626	(12,684)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(4,459)	(3,887)
Convertible debentures accretion	190	204
Non-cash executive and trustee compensation	140	84
Deferred land lease expense and retail lease income, net	3	25
Gain on sale (writedown) of asset held for sale	(174)	1,000
	133,183	(2,628)
Distributable income	19,892	18,738
Distributions		
Required under the Declaration of Trust	15,914	14,990
Timing adjustment	(121)	(126)
Distributions paid	15,793	14,864
Distributions less than distributable income	\$ (4,099)	\$ (3,874)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Net (loss) income and comprehensive (loss) income	\$ (5,959)	\$ 15,805
Add (deduct)		
Depreciation, amortization and accretion	27,856	24,457
Non-cash portion of interest expense	1,477	–
Future income tax recovery	7,090	(12,906)
Reserve for replacement of furniture, fixtures and equipment and capital improvements	(8,079)	(6,942)
Convertible debentures accretion	402	384
Corporate reorganization costs	1,471	–
Non-cash executive and trustee compensation	228	175
Deferred land lease expense and retail lease income, net	17	50
Gain on sale (writedown) of assets held for sale	(833)	1,000
	29,629	6,218
Distributable income	23,670	22,023
Distributions		
Required under the Declaration of Trust	18,936	17,618
Discretionary	12,437	11,115
Distributions paid	31,373	28,733
Distributions in excess of distributable income	\$ 7,703	\$ 6,710

Note 15. 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 Canada Limited (“Westmont”). Westmont manages all but four of the REIT’s hotels. The total management fees paid to other parties for the three and six months ended June 30, 2007 are \$408 and \$694 respectively (three and six months ended June 30, 2006 – \$63).

The Agreements have an initial term of 10 years with two successive five-year renewal terms, subject to the consent of Westmont and approval of 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 (Note 14) in excess of \$1.25 per unit. No management incentive fees were paid during the periods presented. Accounting fees are calculated based on a fixed charge per room which increases by the Consumer Price Index change annually.

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.

Notes to consolidated financial statements

During the three and six months ended June 30, 2007 and 2006, the fees charged to the REIT pursuant to the Agreements were as follows:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Fees from continuing operations:		
Management fees	\$ 3,247	\$ 3,219
Asset management fees (included in hotel operating expenses)	79	–
Accounting services (included in hotel operating expenses)	569	563
Administrative services (included in corporate and administrative expenses)	93	136
Project management and general contractor services (capitalized to hotel properties)	236	151
Fees from discontinued operations	102	30
	\$ 4,326	\$ 4,099

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Fees from continuing operations:		
Management fees	\$ 5,927	\$ 5,780
Asset management fees (included in hotel operating expenses)	157	–
Accounting services (included in hotel operating expenses)	1,145	1,123
Administrative services (included in corporate and administrative expenses)	212	275
Project management and general contractor services (capitalized to hotel properties)	396	294
Fees from discontinued operations	107	52
	\$ 7,944	\$ 7,524

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT were \$126 (June 30, 2006 – \$123). Included in accounts payable and accrued liabilities are amounts outstanding at June 30, 2007 totalling \$1,871 (December 31, 2006 – \$1,076).

Note 16. 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	Québec	Atlantic	Total
Three Months Ended					
June 30, 2007					
Hotel revenues	\$ 10,874	\$ 59,968	\$ 28,643	\$ 11,982	\$ 111,467
Hotel expenses	6,821	41,913	20,574	7,764	77,072
Hotel operating income	\$ 4,053	\$ 18,055	\$ 8,069	\$ 4,218	\$ 34,395
Three Months Ended					
June 30, 2006					
Hotel revenues	\$ 9,795	\$ 60,677	\$ 17,839	\$ 8,931	\$ 97,242
Hotel expenses	6,109	41,288	11,448	5,624	64,469
Hotel operating income	\$ 3,686	\$ 19,389	\$ 6,391	\$ 3,307	\$ 32,773
Six Months Ended					
June 30, 2007					
Hotel revenues	\$ 19,859	\$ 111,059	\$ 50,314	\$ 20,261	\$ 201,493
Hotel expenses	13,111	82,811	38,920	14,633	149,475
Hotel operating income	\$ 6,748	\$ 28,248	\$ 11,394	\$ 5,628	\$ 52,018

Six Months Ended					
June 30, 2006					
Hotel revenues	\$ 17,472	\$ 109,950	\$ 30,383	\$ 15,341	\$ 173,146
Hotel expenses	11,751	80,176	21,099	10,768	123,794
Hotel operating income	\$ 5,721	\$ 29,774	\$ 9,284	\$ 4,573	\$ 49,352
Capital expenditures					
Three Months Ended					
June 30, 2007					
Three Months Ended	\$ 1,374	\$ 3,689	\$ 2,066	\$ 438	\$ 7,567
June 30, 2006	\$ 267	\$ 4,731	\$ 1,083	\$ 519	\$ 6,600
Capital expenditures					
Six Months Ended					
June 30, 2007					
Six Months Ended	\$ 1,747	\$ 7,801	\$ 2,969	\$ 990	\$ 13,507
June 30, 2006	\$ 552	\$ 8,392	\$ 1,441	\$ 939	\$ 11,324
Hotel properties					
June 30, 2007					
December 31, 2006	\$ 72,898	\$ 676,296	\$ 263,807	\$ 114,364	\$ 1,127,365
	\$ 73,233	\$ 681,290	\$ 266,140	\$ 116,067	\$ 1,136,730

Note 17. Total Revenues

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Hotel revenues	\$ 111,467	\$ 97,242	\$ 201,493	\$ 173,146
Other business revenues (Note 18)	2,405	1,578	4,459	2,450
	\$ 113,872	\$ 98,820	\$ 205,952	\$ 175,596

Note 18. Other Business Income

	Franchise Business	Retail/ Office	Retirement Residence	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Revenues	\$ 1,376	\$ 760	\$ 269	\$ 2,405	\$ 1,578
Expenses	566	359	159	1,084	713
Other business income, net	\$ 810	\$ 401	\$ 110	\$ 1,321	\$ 865

	Franchise Business	Retail/ Office	Retirement Residence	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues	\$ 2,438	\$ 1,484	\$ 537	\$ 4,459	\$ 2,450
Expenses	1,047	705	338	2,090	1,099
Other business income, net	\$ 1,391	\$ 779	\$ 199	\$ 2,369	\$ 1,351

Other business income includes Franchise Business Income, which is InnVest's 50% share of Choice Canada's operations and the income from the other real estate properties acquired with the Québec Deltas during the year ended December 31, 2006.

Note 19. Assets Held for Sale and Discontinued Operations

On April 18, 2006, the REIT reclassified one Ontario hotel property to assets held for sale. At September 30, 2006, the REIT reclassified a second hotel property, in Atlantic Canada, to assets held for sale.

On March 30, 2007, the REIT sold the hotel held for sale in Atlantic Canada for \$2,350 less closing costs of \$250, and recorded a gain of \$659. On April 10, 2007, the Ontario asset held for sale was sold for \$4,650 less closing costs of \$350, and the REIT recorded a gain of \$174. The debt owing of \$1,010 and \$1,181 respectively was paid out of the proceeds. The operations for these two hotels are included as discontinued operations as summarized below.

Discontinued operations for the three and six months ended June 30, 2007 and 2006 are as follows:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Hotel revenues	\$ 21	\$ 639
Hotel expenses		
Operating expenses	25	385
Property taxes, rent and insurance	–	48
Management fees	1	22
	26	455
Hotel operating income	(5)	184
Interest on mortgages	–	38
Depreciation and amortization	–	83
	–	121
(Loss) income from discontinued operations	(5)	63
Gain on sale (writedown) of assets held for sale	174	(1,000)
Net income (loss) from discontinued operations	\$ 169	\$ (937)
	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Hotel revenues	\$ 462	\$ 1,100
Hotel expenses		
Operating expenses	383	762
Property taxes, rent and insurance	49	99
Management fees	16	37
	448	898
Hotel operating income	14	202
Interest on mortgages	38	73
Depreciation and amortization	–	165
	38	238
Loss from discontinued operations	(24)	(36)
Gain on sale (writedown) of assets held for sale	833	(1,000)
Net income (loss) from discontinued operations	\$ 809	\$ (1,036)

Note 20. Comparative Information

Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 21. Subsequent Events

London Staybridge Acquisition

Subsequent to June 30, 2007, the REIT completed the purchase of the 117 room Staybridge Suites in London, Ontario for \$16,965 plus closing costs. The REIT assumed the existing debt of \$8,300 at an interest rate of 6.4% for a ten year term. The balance was funded through cash on hand.

Take-over Bid and Offering

On July 12, 2007 InnVest, in partnership with Cadbridge Investors LP (“Cadbridge”), a joint venture entity between affiliates of Cadim, a division of the Caisse de Dépôt et Placement du Québec and an affiliate of InnVest’s hotel manager, announced a take-over bid for all of the outstanding units of Legacy Hotels Real Estate Investment Trust (“Legacy”) at a price of \$12.60 per unit. The take-over bid will be effected by LGY Acquisition LP, a newly-formed limited partnership, owned by InnVest and Cadbridge in which InnVest has an approximate 26% interest. Upon the successful completion of the acquisition of 100% of Legacy’s outstanding units, InnVest and Cadbridge will reorganize Legacy’s assets such that InnVest will become the owner of the following eleven first class hotels: The Fairmont Palliser, Sheraton Suites Calgary Eau Claire, Delta Calgary Airport, Fairmont Hotel Macdonald, Delta Winnipeg Hotel, Delta Ottawa Hotel and Suites, Delta Centre-Ville, Delta Beauséjour, Delta Prince Edward, Delta Barrington and the Delta Halifax (collectively the “Portfolio”). This reorganization is expected to be completed within 30 days of LGY Acquisition LP acquiring 100% of Legacy’s outstanding units and, until such time, InnVest will remain an approximate 26% owner in LGY Acquisition LP.

The purchase price, including the assumption of existing debt, in respect of the eleven hotels that InnVest will ultimately acquire, is approximately \$651,825 (\$178 per room) prior to closing and transaction costs.

Upon the completion of the Portfolio acquisition, InnVest’s total portfolio will increase to 147 properties, totalling 19,265 rooms across Canada.

In order to partially fund the \$675,364 cost of the Portfolio acquisition (which includes the various transaction and financing costs required to close), InnVest has entered into an agreement to sell to a syndicate of underwriters, on a bought deal basis, \$200,008 of subscription receipts at a price of \$12.35 per subscription receipt representing the right to receive trust units of the REIT and \$70,000 of convertible extendible unsecured subordinated debentures. The remainder of the purchase price will be satisfied with the assumption of \$194,332 in mortgage debt secured by the properties and \$211,720 of bridge financing from a Canadian chartered bank. InnVest intends to refinance the existing mortgages and arrange new mortgage financing on five of the acquired assets that are currently unencumbered. The bridge loan will be repaid from the proceeds of these financings.

After taking into consideration the equity issue and convertible debenture raised for this Legacy transaction, the REIT will not lose its relief in the interim periods to 2011, as it did not undergo an “undue expansion”, for income tax purposes (Note 10).



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Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: INN.UN