

Attention Business/Financial Editors:**InnVest REIT reports results for the three months ended March 31, 2005**

TORONTO, May 11 /CNW/ - InnVest Real Estate Investment Trust (TSX: INN.UN) today announced financial results for the three months ended March 31, 2005.

"While the industry was negatively impacted by the combined effect of spring break and Easter in March rather than April, which disrupted normalized business and leisure travel patterns and one less day in February, we were encouraged by upward movement in room rates. With the acquisition of the Oakville Holiday Inn Select, we are continuing to add hotels to our portfolio that meet our objectives of providing stable cash flow and long-term value", said Mr. Kenneth Gibson, President and Chief Executive Officer of InnVest REIT.

<<

Financial Highlights

(In thousands of Canadian dollars except average daily rate, revenue per available room and per unit amounts)

| | Three months ended March 31 | | |
|---------------------------------------|-----------------------------|-----------|-----------|
| | 2005 | 2004 | +/- |
| Occupancy | 53.2% | 53.0% | 0.2% |
| Average daily rate ("ADR") | \$84.59 | \$77.13 | \$7.46 |
| Revenue Per Available Room ("RevPAR") | \$45.02 | \$40.86 | \$4.16 |
| Operating revenues | \$59,964 | \$45,168 | \$14,796 |
| Hotel operating income ("HOI") | \$12,219 | \$11,273 | \$946 |
| Net loss | (\$8,616) | (\$4,848) | (\$3,768) |
| Add/(deduct) | | | |
| Depreciation and amortization | 9,499 | 7,853 | 1,646 |
| Future income tax recovery | (1,142) | (626) | (516) |
| Non-cash executive and trustee | | | |

| | | | |
|---|-----------|----------|-----------|
| compensation | 90 | 72 | 18 |
| Amortization of fair value debt adjustment | - | (342) | 342 |
| Amortization of deferred financing costs | 520 | 375 | 145 |
| Reserve for replacement of furniture, fixtures and equipment and capital improvements | (2,439) | (1,860) | (579) |
| Writedown of assets held for sale | 1,471 | - | 1,471 |
| Convertible debentures accretion | 262 | 155 | 107 |
| ----- | | | |
| Distributable (loss) income(1) | (\$355) | \$779 | (\$1,134) |
| ----- | | | |
| Distributable (loss) income per unit | | | |
| - basic | (\$0.008) | \$0.019 | (\$0.027) |
| ----- | | | |
| Distributable (loss) income per unit | | | |
| - diluted | (\$0.008) | \$0.019 | (\$0.027) |
| ----- | | | |
| Distributions per unit | \$0.2813 | \$0.2813 | - |
| ----- | | | |

(1) Distributable (loss) income is a measure of earnings and cash flow that is not required or does not have a prescribed meaning under Canadian generally accepted accounting principles, and accordingly, may not be comparable to similar measures used by other organizations. Distributable (loss) income per unit is calculated on a basis consistent with earnings per unit.

FINANCIAL REVIEW

(unless otherwise stated, amounts are in thousands of Canadian dollars)

Three months ended March 31, 2005

Room revenues for the three months ended March 31, 2005 were \$51.8 million, 24.1% higher than the \$41.7 million generated for the same period in 2004. The improvement of \$10.1 million in room revenue in the first quarter primarily reflects the acquired hotels, which provided \$9.8 million in additional room revenue. In the original portfolio, all regions showed improvement, except Ontario, where our Windsor and Ottawa hotels experienced declines from the same period in 2004.

Non-room revenue was \$8.2 million compared to \$3.5 million in the prior year. The increase of \$4.7 million primarily reflects \$4.4 million related to non-room revenue generated by the REIT's acquired hotels, a large portion of which is food and beverage revenue. Non-room revenue for the three months

ended March 31, 2005 accounts for 13.7% (2004 - 7.7%) of total hotel revenue. The mix of room revenue and non-room revenue has changed from the prior year as a result of the acquired hotels which compete in the mid-scale with food and beverage sector and earn a higher proportion of total revenue from non-room revenue.

Hotel expenses for the first quarter increased by \$13.9 million or 40.8% compared to 2004, excluding the results of the assets held for sale. This primarily reflects \$12.2 million in expenses incurred in the acquired hotels.

The net amount of other income and expenses for the three months ended March 31, 2005 was \$19.9 million, which was \$3.6 million or 21.9% more than the same period in 2004. The main contributors to this change were a \$1.8 million increase in depreciation and amortization, a \$1.1 million increase in interest on mortgages, and a \$931 increase in convertible debenture interest and accretion, all three mainly related to the acquired hotels.

Distributable loss for the three months ended March 31, 2005 was \$355 or \$0.008 per unit - basic (diluted - \$0.008). This reflects a \$1.1 million decrease over the distributable income achieved for the same period in the prior year of \$779 or \$0.019 per unit - basic (diluted - \$0.019).

RECENT DEVELOPMENTS

On March 31, 2005, the REIT finalized the acquisition of the Oakville Holiday Inn Select and Conference and Banquet Centre for \$28.5 million. The 144-room hotel features a restaurant, lounge, meeting facilities and an indoor swimming pool. It is expected that the acquisition will provide stable accretive cash flow and provide long-term benefits to unitholders through value appreciation and further diversification. The property is in Oakville, Ontario, where previously, the REIT did not own any hotels. The acquisition increases the number of Holiday Inn(R) branded hotels from 10 to 11 in the portfolio, providing further diversification.

BALANCE SHEET REVIEW

At March 31, 2005, InnVest's cash totaled \$12.4 million, all of which is restricted for replacement of furniture, fixtures and equipment and capital improvements. Financial leverage is 38.3% debt to gross asset value (defined as total assets before accumulated depreciation less future income tax liability) excluding convertible debentures and 51.7% including convertible debentures.

Continuing with the strategy of investing in the hotels, approximately \$5.3 million for capital asset improvements was deployed during the first quarter. Our current expectation is that capital spending in 2005 will be \$18 to \$20 million.

INCOME TAX DEFERRAL PERCENTAGE

For calendar 2005, the REIT estimates that over 40% of the distributions made to Unitholders will not be taxable to Unitholders.

OUTLOOK

All regions experienced room rate improvements in the quarter over the prior year, and we expect this trend to continue, given the expected low level of new supply entering the Canadian hotel market this year. This, coupled with expectations of higher hotel room demand, should lead to improved revenues in future quarters. Hotel industry advisors, PKF Consulting, are forecasting a RevPAR improvement of approximately 4% in 2005 on a national basis. InnVest expects that the overall Canadian hotel industry will improve in 2005 and remains optimistic that its hotels will benefit from these trends. With these trends, the REIT expects that its distributable income per unit will be greater than that achieved in 2004.

"InnVest is well positioned to capitalize on expectations of demand growth outpacing supply growth in the Canadian hotel market in 2005", said Mr. Gibson.

FORWARD LOOKING STATEMENTS

Statements contained in this press release that are not historical facts are forward-looking statements which involve risk and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Among the key factors that could cause such differences are real estate investment risks, hotel industry risks and competition. These and other factors are discussed in InnVest REIT's 2004 annual information form which is available at <http://www.sedar.com>. 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 law.

TRUST PROFILE

InnVest REIT holds Canada's largest hotel portfolio together with a 50% interest in Choice Hotels Canada Inc. the largest franchisor of hotels in Canada. The hotel portfolio comprises 125 limited service and mid market hotel properties, with over 13,000 guest rooms, operated under several internationally recognized franchise brands such as Comfort Inn(R), Quality Suites(R), Quality Hotels(R), Holiday Inn(R) and Travelodge(R).

QUARTERLY CONFERENCE CALL

Management will host a conference call on Wednesday May 11, 2005 at 11:00 a.m. Toronto time to discuss the performance of InnVest REIT.

Interested

participants may dial either (416) 640-4127 or (800) 814-4859 as applicable to

access the call. A recording of this call will be made available May 11, 2005 beginning at 1:00 p.m. through to 11:59 pm on May 18, 2005. To access the rebroadcast, please dial (416) 640-1917, pass code 21121652 (followed by the number sign).

InnVest Real Estate Investment Trust

 CONSOLIDATED BALANCE SHEETS

| (in thousands of dollars) (Unaudited) | March 31, 2005 | December 31, 2004 |
|--|-------------------|---------------------------------|
| | | Restated (Notes 2 and 14) |
| ----- | | |
| ASSETS | | |
| Current Assets | | |
| Cash | \$ - | \$ 22,637 |
| Accounts receivable | 8,568 | 9,314 |
| Prepaid expenses and other assets | 7,606 | 6,248 |
| Current assets held for sale (Note 14) | 214 | 238 |
| | ----- | ----- |
| | 16,388 | 38,437 |
| Restricted cash | 12,444 | 17,024 |
| Hotel properties (Note 4) | 949,800 | 924,454 |
| Licence contracts (accumulated amortization \$ 3,532 -- December 31, 2004 -- \$3,203) | 22,788 | 23,117 |
| Deferred financing and other assets (Note 5) | 7,053 | 7,359 |
| Long-term assets held for sale (Note 14) | 9,529 | 11,073 |
| | ----- | ----- |
| | \$ 1,018,002 | \$ 1,021,464 |
| | ----- | ----- |
| | ----- | ----- |

LIABILITIES

Current Liabilities

| | | |
|---|----------|--------|
| Bank indebtedness (Note 6) | \$ 8,300 | \$ - |
| Accounts payable and accrued liabilities | 29,014 | 24,138 |
| Distributions payable | 4,312 | 4,295 |
| Current portion of long-term debt (Note 7) | 7,154 | 6,949 |
| Current liabilities held for sale (Note 14) | 406 | 314 |

| | | |
|--|--------|--------|
| | 49,186 | 35,696 |
|--|--------|--------|

| | | |
|-------------------------|---------|---------|
| Long-term debt (Note 7) | 352,171 | 347,638 |
|-------------------------|---------|---------|

| | | |
|---------------------------------|---------|---------|
| Convertible debentures (Note 8) | 126,980 | 127,821 |
|---------------------------------|---------|---------|

| | | |
|-----------------------------|---------|---------|
| Future income tax liability | 134,973 | 136,115 |
|-----------------------------|---------|---------|

| | | |
|---|-------|-------|
| Long-term liabilities held for sale (Note 14) | 5,532 | 5,556 |
|---|-------|-------|

| | | |
|--|---------|---------|
| | 668,842 | 652,826 |
|--|---------|---------|

| | | |
|---------------------|---------|---------|
| UNITHOLDERS' EQUITY | 349,160 | 368,638 |
|---------------------|---------|---------|

| | | |
|--|--------------|--------------|
| | \$ 1,018,002 | \$ 1,021,464 |
|--|--------------|--------------|

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

InnVest Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF OPERATIONS

| | | |
|--|--|--|
| (in thousands of dollars, except per unit amounts) (Unaudited) | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|--|--|--|

Restated
(Notes 2
and 14)

| | | |
|---|------------|------------|
| Hotel revenues | \$ 59,964 | \$ 45,168 |
| ----- | | |
| Hotel expenses | | |
| Operating expenses (Note 12) | 38,446 | 26,399 |
| Property taxes, rent and insurance | 7,275 | 5,971 |
| Management fees (Note 12) | 2,024 | 1,525 |
| | ----- | ----- |
| | 47,745 | 33,895 |
| ----- | | |
| Hotel operating income | 12,219 | 11,273 |
| ----- | | |
| Other (income) and expenses | | |
| Interest on mortgages | 6,343 | 5,233 |
| Convertible debentures interest and accretion | 2,911 | 1,980 |
| Corporate and administrative (Note 12) | 934 | 924 |
| Capital tax | 441 | 490 |
| Franchise business income | (428) | (308) |
| Other income | (120) | (29) |
| Depreciation and amortization | 9,848 | 8,060 |
| | ----- | ----- |
| | 19,929 | 16,350 |
| ----- | | |
| Loss before income tax expense (recovery) | (7,710) | (5,077) |
| ----- | | |
| Income tax expense (recovery) | | |
| Current | 262 | 305 |
| Future | (1,142) | (626) |
| | ----- | ----- |
| | (880) | (321) |
| ----- | | |
| Net loss before discontinued operations | (6,830) | (4,756) |
| ----- | | |
| Write down of assets held for sale (Note 14) | (1,471) | - |
| Loss from discontinued operations (Note 14) | (315) | (92) |
| | ----- | ----- |
| | (1,786) | (92) |
| ----- | | |
| Net loss | \$ (8,616) | \$ (4,848) |

 Net loss before discontinued operations,
 per unit (Note 10)

| | | | | |
|-------------------|----|---------|----|---------|
| Basic and diluted | \$ | (0.149) | \$ | (0.115) |
|-------------------|----|---------|----|---------|

Net loss from discontinued operations,
 per unit (Note 10)

| | | | | |
|-------------------|----|---------|----|---------|
| Basic and diluted | \$ | (0.039) | \$ | (0.002) |
|-------------------|----|---------|----|---------|

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

InnVest Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

| (in thousands of dollars) (Unaudited) | Units in \$ | Net Income | Distri- butions |
|---|-------------|---------------|--------------------|
| Balance December 31, 2003 (Restated, Note 2) | \$ 389,310 | \$ 20,138 | \$ (66,280) |
| CHANGES DURING THE PERIOD | | | |
| Net loss | - | (4,848) | - |
| Unit distributions | - | - | (11,619) |
| Distribution reinvestment plan units issued (Note 9) | 671 | - | - |
| Conversion of debentures | 505 | - | - |
| Executive and trustee compensation (Note 9) | 53 | - | - |
| Balance March 31, 2004 (Restated, Note 2) | \$ 390,539 | \$ 15,290 | \$ (77,899) |

| | | | |
|---|------------|-----------|--------------|
| Balance December 31, 2004 (Restated, Note 2) | \$ 438,657 | \$ 40,494 | \$ (116,444) |
|---|------------|-----------|--------------|

CHANGES DURING THE PERIOD

| | | | |
|---|-------|---------|----------|
| Net loss | - | (8,616) | - |
| Unit distributions | - | - | (12,918) |
| Distribution reinvestment plan units issued (Note 9) | 848 | - | - |
| Conversion of debentures | 1,146 | - | - |
| Executive and trustee compensation (Note 9) | 46 | - | - |

| | | | |
|------------------------|------------|-----------|--------------|
| Balance March 31, 2005 | \$ 440,697 | \$ 31,878 | \$ (129,362) |
|------------------------|------------|-----------|--------------|

| (in thousands of dollars) (Unaudited) | Executive Compensation | Holder's Conversion Option | Total |
|--|---------------------------|----------------------------------|-------|
|--|---------------------------|----------------------------------|-------|

| | | | |
|---|-------|----------|------------|
| Balance December 31, 2003 (Restated, Note 2) | \$ 72 | \$ 2,850 | \$ 346,090 |
|---|-------|----------|------------|

CHANGES DURING THE PERIOD

| | | | |
|---|----|------|----------|
| Net loss | - | - | (4,848) |
| Unit distributions | - | - | (11,619) |
| Distribution reinvestment plan units issued (Note 9) | - | - | 671 |
| Conversion of debentures | - | (20) | 485 |
| Executive and trustee compensation (Note 9) | 42 | - | 95 |

| | | | |
|--|--------|----------|------------|
| Balance March 31, 2004 (Restated, Note 2) | \$ 114 | \$ 2,830 | \$ 330,874 |
|--|--------|----------|------------|

| | | | |
|---|--------|----------|------------|
| Balance December 31, 2004 (Restated, Note 2) | \$ 226 | \$ 5,705 | \$ 368,638 |
|---|--------|----------|------------|

CHANGES DURING THE PERIOD

| | | | |
|---|----|------|----------|
| Net loss | - | - | (8,616) |
| Unit distributions | - | - | (12,918) |
| Distribution reinvestment plan units issued (Note 9) | - | - | 848 |
| Conversion of debentures | - | (44) | 1,102 |
| Executive and trustee compensation (Note 9) | 60 | - | 106 |

| | | | | | | |
|------------------------|----|-----|----|-------|----|---------|
| Balance March 31, 2005 | \$ | 286 | \$ | 5,661 | \$ | 349,160 |
|------------------------|----|-----|----|-------|----|---------|

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

InnVest Real Estate Investment Trust

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in thousands of dollars) (Unaudited) | Three Months Ended | |
|--|--------------------|---------------------------------|
| | March 31, 2005 | March 31, 2004 |
| | | Restated (Notes 2 and 14) |
| OPERATING ACTIVITIES | | |
| Net loss from continuing operations | \$ (6,830) | \$ (4,756) |
| Add (deduct) items not affecting operations | | |
| Depreciation and amortization | 9,328 | 7,689 |
| Amortization of deferred financing and other assets | 520 | 375 |
| Future income tax expense (recovery) | (1,142) | (626) |
| Non-cash executive and trustee compensation | 106 | 72 |
| Convertible debentures accretion | 262 | 155 |
| Amortization of fair value debt adjustment | - | (342) |
| Changes in non-cash working capital | 4,281 | 4,220 |
| | 6,525 | 6,787 |

FINANCING ACTIVITIES

| | | |
|---|----------|----------|
| Repayment of long-term debt | (1,964) | (7,654) |
| Proceeds from long-term debt | 6,702 | 6,100 |
| Unit distributions | (12,053) | (10,941) |
| Increase in bank indebtedness | 8,300 | 9,927 |
| Changes in non-cash working capital related to financing activities | (17) | (289) |
| Deferred financing | (125) | (307) |
| | 843 | (3,164) |

INVESTING ACTIVITIES

| | | |
|--|----------|---------|
| Capital expenditures on hotel properties | (5,265) | (1,367) |
| Acquisition of hotel properties and related costs (Note 3) | (29,194) | (5,826) |
| Changes in restricted cash | 4,580 | 22 |
| | (29,879) | (7,171) |

| | | |
|---|----------|---------|
| Decrease in cash from continuing operations during the period | (22,511) | (3,548) |
| Decrease in cash from discontinued operations (Note 14) | (126) | (109) |
| Cash, beginning of period | 22,637 | 3,958 |
| Cash, end of period | \$ - | \$ 301 |

Supplemental disclosure of cash flow information:

| | | |
|--|----------|----------|
| Cash paid for interest | \$ 6,382 | \$ 5,826 |
| Cash paid for income taxes (including capital tax) | \$ 725 | \$ 651 |

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

InnVest Real Estate Investment Trust

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(all dollar amounts are in thousands, except unit and per unit amounts)

(Unaudited)

1. Basis of Presentation

InnVest Real Estate Investment Trust ("InnVest" or the "REIT") is an unincorporated open-ended real estate investment trust governed by the laws of Ontario. The REIT began operations on July 26, 2002. As at March 31, 2005 the REIT owns 125 Canadian hotels with 13,416 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, except for the change in accounting policy described 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.

2. Change in Accounting Policy

Liabilities and equity presentation

Effective for periods beginning on or after November 1, 2004, the CICA has issued new guidance with respect to accounting for financial instruments. This new standard requires certain financial instruments that may be settled in cash or by an issuer's own equity instrument, at the issuer's discretion, by a variable number of the issuer's own equity instruments to be presented as liabilities. The REIT has adopted this new standard as of January 1, 2005 and therefore the liability component of the REIT's convertible debentures has been reclassified from equity to liabilities and the interest on the debentures is now deducted in the calculation of net loss. The REIT has accounted for the change retroactively with a restatement of the comparative period. This new standard did not have any effect on net loss per unit.

3. Asset Acquisitions

On March 31, 2005, the REIT purchased the Holiday Inn Select Oakville.

The net assets acquired are as follows:

| | | |
|---------------------|----|--------|
| Cash | \$ | 4 |
| Current assets | | 91 |
| Hotel properties | | 29,194 |
| ----- | | |
| | | 29,289 |
| Current liabilities | | (95) |
| ----- | | |
| | \$ | 29,194 |
| ----- | | |

The consideration paid consists of the following:

| | | |
|-------|----|--------|
| Cash | \$ | 29,194 |
| ----- | | |
| ----- | | |

The REIT is continuing to evaluate the fair value of the net assets acquired, and based on this on-going evaluation, the purchase price allocation may be adjusted in future periods.

4. Hotel Properties

| | | | March 31, 2005 | Dec. 31, 2004 |
|--------------------------------------|--------------|-----------------------------|-------------------|-----------------------|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| | | | | Restated (Note 14) |
| Land | \$ 80,526 | \$ - | \$ 80,526 | \$ 72,091 |
| Buildings | 875,175 | 53,490 | 821,685 | 805,883 |
| Furniture, fixtures and equipment | 77,247 | 29,658 | 47,589 | 46,480 |
| | \$ 1,032,948 | \$ 83,148 | \$ 949,800 | \$ 924,454 |
| ----- | | | | |
| ----- | | | | |

5. Deferred Financing and Other Assets

| | | | March 31, 2005 | Dec. 31, 2004 |
|--|------|-----------------------------|-------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| | | | | |

| | | | | | Restated (Note 14) | |
|--------------------|----|--------|----|-------|-----------------------|----------|
| Deferred financing | \$ | 10,648 | \$ | 4,373 | \$ 6,275 | \$ 6,725 |
| Other assets | | 854 | | 76 | 778 | 634 |
| | \$ | 11,502 | \$ | 4,449 | \$ 7,053 | \$ 7,359 |

6. Bank Indebtedness

The REIT has a \$25 million operating loan facility that bears interest at Canadian bank prime plus 0,5%, is secured by nine hotel properties and is payable on demand. As at March 31, 2005, the REIT had drawn \$8,300 on this facility.

7. Long-term Debt

| | | March 31, 2005 | | Dec. 31, 2004 |
|--------------------------------|----|-------------------|----|-----------------------|
| | | | | Restated (Note 14) |
| Mortgages payable | \$ | 357,170 | \$ | 352,439 |
| Deferred land lease obligation | | 161 | | 154 |
| Capital lease obligation | | 1,994 | | 1,994 |
| | \$ | 359,325 | \$ | 354,587 |
| Less; current portion | | 7,154 | | 6,949 |
| Total long-term debt | \$ | 352,171 | \$ | 347,638 |

Substantially all of the REIT's assets have been pledged as security under various debt agreements. At March 31, 2005, long-term debt had a weighted average interest rate of 7.1% (December 31, 2004 - 7.2%). The long-term debt is repayable in average monthly payments of principal and interest totalling \$2,780 (December 31, 2004 - \$2,730) per month, and matures at various dates from July 1, 2005 to October 1, 2017.

The deferred land lease obligation is the difference between the long-term land lease expense using the straight-line method and actual lease payments made.

Scheduled repayment of long-term debt is as follows:

| | | |
|------------------------------|----|------------|
| 2005 (remainder of the year) | \$ | 5,151 |
| 2006 | | 139,147 |
| 2007 | | 4,845 |
| 2008 | | 153,132 |
| 2009 | | 1,712 |
| 2010 and thereafter | | 55,338 |
| | | ----- |
| | | \$ 359,325 |
| | | ----- |
| | | ----- |

The current portion of long-term debt on the balance sheet is based on the year ended March 31, 2006, whereas the repayment schedule above reflects the fiscal year.

The estimated fair value of the REIT's long-term debt at March 31, 2005 was approximately \$365,817 (December 31, 2004 - \$362,277). 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 \$59,733 (December 31, 2004 - \$53,401) of mortgages payable, which are subject to floating interest rates. Interest expense will increase by \$597 for every 1% increase in the base Bankers' Acceptance rate.

The REIT has a \$100,000 mortgage loan facility with its main mortgage lender of which \$39,098 is available to refinance mortgage debts held by its various other lenders, as they mature.

8. Convertible Debentures

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

| | Issue Date | Maturity Date | Interest Rate | Original Face Amount | Converted to Trust Units |
|-------------------------|---------------|----------------|---------------|----------------------|--------------------------|
| Initial Debentures (a) | July 26, 2002 | June 30, 2007 | 9.75% | \$ 75,000 | \$ 1,676 |
| Series A Debentures (b) | April 2, 2004 | April 15, 2011 | 6.25% | 57,500 | - |

\$ 132,500 \$ 1,676

| | Face Amount Outstanding | Holder Conversion Options | Accretion | Mar. 31, 2005 | Dec. 31, 2004 |
|----------------|-------------------------------|---------------------------------|-----------|------------------|------------------|
| Initial | | | | | |
| Debentures (a) | \$ 73,324 | \$ 2,850 | \$ 1,470 | \$ 71,944 | \$ 72,888 |
| Series A | | | | | |
| Debentures (b) | 57,500 | 2,875 | 411 | 55,036 | 54,933 |
| | \$ 130,824 | \$ 5,725 | \$ 1,881 | \$ 126,980 | \$ 127,821 |

9. Unitholders' Equity

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

| | Units | Amount |
|---|------------|------------|
| Balance at December 31, 2003 | 41,247,862 | \$ 389,310 |
| Units issued under distribution reinvestment plan | 60,484 | 671 |
| Units issued on conversion of debentures | 46,511 | 505 |
| Units issued under trustee compensation plan | 4,678 | 53 |
| Balance at March 31, 2004 | 41,359,535 | \$ 390,539 |
| Balance at December 31, 2004 | 45,815,071 | \$ 438,657 |
| Units issued under distribution reinvestment plan | 72,359 | 848 |
| Units issued on conversion of debentures | 106,600 | 1,146 |
| Units issued under trustee compensation plan | 2,561 | 46 |
| Balance at March 31, 2005 | 45,996,591 | \$ 440,697 |

Trustee Compensation Plan

The members of the Board of Trustees receive 50% of their annual retainer in units (based on the then current market price of the units). The REIT has set aside 100,000 units in reserve for this purpose. During the three months ended March 31, 2005, 2,561 units were issued (March 31, 2004 - 4,678 units) under the Trustee Compensation Plan.

Executive Compensation Plan

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

The following table summarizes the status of the executive compensation plan at March 31, 2005:

| | Unvested Executive units | Units Accumulated from Distri- butions | Total Units |
|---------------------------------|--------------------------------|---|----------------|
| ----- | | | |
| July 18, 2002 - granted | 49,500 | 11,529 | 61,029 |
| January 1, 2003 - granted | 17,846 | 4,949 | 22,795 |
| January 1, 2004 - granted | 10,218 | 1,362 | 11,580 |
| January 1, 2005 - granted | 13,118 | 308 | 13,426 |
| January 26, 2003 - units vested | (16,500) | (1,983) | (18,483) |
| January 26, 2004 - units vested | (16,500) | (4,073) | (20,573) |
| ----- | | | |
| | 57,682 | 12,092 | 69,774 |
| ----- | | | |

On March 2, 2005 the Board of Trustees approved the granting of 13,118 units effective as of January 1, 2005. These units vest equally on the third and fourth anniversary 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.

10. Per Unit Information

Net loss per unit calculations are based on the following:

| | Three Months Ended Mar. 31, 2005 | | Three Months Ended Mar. 31, 2004 | |
|---|--|------------|--|------------|
| | Weighted Average Units | | Weighted Average Units | |
| Net loss before discontinued operations - basic | \$(6,830) | 45,907,766 | \$(4,756) | 41,292,952 |
| Dilutive effect of executive compensation plan | - | 68,989 | - | 14,116 |
| Net loss before discontinued operations - diluted | \$(6,830) | 45,976,755 | \$(4,756) | 41,307,068 |

| | Three Months Ended Mar. 31, 2005 | | Three Months Ended Mar. 31, 2004 | |
|---|--|------------|--|------------|
| | Weighted Average Units | | Weighted Average Units | |
| Net loss from discontinued operations | \$(1,786) | 45,907,766 | \$(92) | 41,292,952 |
| Dilutive effect of executive compensation plan | - | 68,989 | - | 14,116 |
| Net loss from discontinued operations - diluted | \$(1,786) | 45,976,755 | \$(92) | 41,307,068 |

Distributable income per unit calculations are based on the following (Note 11):

| | Three Months | Three Months |
|--|--------------|--------------|
|--|--------------|--------------|

| | Ended Mar. 31, 2005 | | Ended Mar. 31, 2004 | |
|---|---------------------------|------------|---------------------------|------------|
| | Weighted Average Units | | Weighted Average Units | |
| Distributable (loss) income | | | | |
| - basic | \$ (355) | 45,907,766 | \$ 779 | 41,292,952 |
| Dilutive effect of executive compensation plan | - | 68,989 | - | 14,116 |
| Distributable (loss) income | | | | |
| - diluted | \$ (355) | 45,976,755 | \$ 779 | 41,307,068 |

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

11. Distributable Income

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

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

Distributable income means net income in accordance with Canadian generally accepted accounting principles, subject to certain adjustments as set out in the Declaration of Trust, including adding back depreciation and amortization, amortization of fair value debt adjustment and future income tax (recovery) 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, and 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.

| Three Months Ended March 31, | Three Months Ended March 31, |
|------------------------------------|------------------------------------|
|------------------------------------|------------------------------------|

| | 2005 | 2004 |
|---|------------|------------|
| Net loss | \$ (8,616) | \$ (4,848) |
| Add (deduct) | | |
| Depreciation and amortization | 10,019 | 8,228 |
| Amortization of fair value debt adjustment | - | (342) |
| Future income tax recovery | (1,142) | (626) |
| Reserve for replacement of furniture, fixtures and equipment and capital improvements | (2,439) | (1,860) |
| Writedown of assets held for sale | 1,471 | - |
| Non-cash executive and trustee compensation | 90 | 72 |
| Convertible debentures accretion | 262 | 155 |
| | 8,261 | 5,627 |
| Distributable (loss) income | (355) | 779 |
| Distributions in excess of distributable (loss) income | (13,273) | (10,840) |
| Distributions | \$ 12,918 | \$ 11,619 |
| Distributable (loss) income per unit | | |
| - basic | \$ (0.008) | \$ 0.019 |
| - diluted | \$ (0.008) | \$ 0.019 |

12. Management Agreements

On July 26, 2002, the REIT entered into a Management Agreement for hotel management and accounting services and an Administrative Services Agreement ("the Agreements") with Westmont Hospitality Management Canada Limited.

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

the year. 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.

During the three months ended March 31, 2005 and 2004, the fees charged to the REIT pursuant to the Agreements were as follows:

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|--|--|
| ----- | | |
| Management fees | \$ 2,058 | \$ 1,570 |
| Accounting services (included in hotel operating expenses) | 517 | 438 |
| Administrative services (included in corporate and administrative services) | 126 | 124 |
| Project management and general contractor services (capitalized in hotel properties) | 176 | 87 |
| ----- | | |
| | \$ 2,877 | \$ 2,219 |
| ----- | | |

In addition, salaries of REIT employees paid by Westmont and reimbursed by the REIT, were \$90 (March 31, 2004 - \$36). Included in accounts payable and accrued liabilities are amounts outstanding at March 31, 2005 totalling \$984 (December 31, 2004 - \$863).

13. Segmented Financial Information

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

| | Western | Ontario | Quebec | Atlantic | Total |
|------------------------|-----------|------------|------------|------------|------------|
| ----- | | | | | |
| Three months ended | | | | | |
| March 31, 2005 | | | | | |
| Hotel revenues | \$ 6,507 | \$ 36,095 | \$ 11,221 | \$ 6,141 | \$ 59,964 |
| Hotel expenses | 5,256 | 28,948 | 8,490 | 5,051 | 47,745 |
| ----- | | | | | |
| Hotel operating income | \$ 1,251 | \$ 7,147 | \$ 2,731 | \$ 1,090 | \$ 12,219 |
| ----- | | | | | |
| Three months ended | | | | | |
| March 31, 2004 | | | | | |
| Hotel revenues | \$ 5,028 | \$ 24,552 | \$ 11,005 | \$ 4,583 | \$ 45,168 |
| Hotel expenses | 4,061 | 18,213 | 8,204 | 3,417 | 33,895 |
| ----- | | | | | |
| Hotel operating income | \$ 967 | \$ 6,339 | \$ 2,801 | \$ 1,166 | \$ 11,273 |
| ----- | | | | | |
| Capital expenditures | | | | | |
| Three months ended | | | | | |
| March 31, 2005 | \$ 505 | \$ 3,697 | \$ 457 | \$ 606 | \$ 5,265 |
| Three months ended | | | | | |
| March 31, 2004 | \$ 133 | \$ 707 | \$ 294 | \$ 233 | \$ 1,367 |
| ----- | | | | | |
| Hotel properties | | | | | |
| March 31, 2005 | \$ 76,675 | \$ 580,903 | \$ 183,811 | \$ 108,411 | \$ 949,800 |
| December 31, 2004 | \$ 77,266 | \$ 553,216 | \$ 185,155 | \$ 108,817 | \$ 924,454 |
| ----- | | | | | |

14. Assets Held for Sale and Discontinued Operations

On March 31, 2005, the REIT reclassified three hotel properties to assets held for sale. The long-term debt for these assets is with the REIT's main mortgage lender and can be repaid at any time without penalty. Mortgage debt of \$3,101 matures on July 26, 2006 and \$2,431 matures on July 26, 2008.

The discontinued operations for the three months ended March 31, 2005 and

2004 are as follows:

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---------------------------------------|--|--|
| ----- | | |
| Hotel revenues | \$ 1,020 | \$ 1,345 |
| Hotel expenses | | |
| Operating expenses | 864 | 952 |
| Property taxes, rent and insurance | 159 | 162 |
| Management fees | 34 | 45 |
| ----- | | |
| | 1,057 | 1,159 |
| ----- | | |
| Hotel operating income | (37) | 186 |
| Interest on mortgages | 107 | 110 |
| Depreciation and amortization | 171 | 168 |
| ----- | | |
| | 278 | 278 |
| ----- | | |
| Loss from discontinued operations | (315) | (92) |
| Writedown of assets held for sale | (1,471) | - |
| ----- | | |
| Net loss from discontinued operations | \$ (1,786) | \$ (92) |
| ----- | | |




15. Comparative Information

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

>>

%SEDAR: 00018005E

For further information: please contact Kenneth Gibson, President and Chief Executive Officer, Tel: (905) 206-7100; Tamara L. Lawson, Chief Financial Officer and Secretary, Tel: (905) 206-7100; Website: www.InnVestreit.com

| | | | |
|---|---|--|------------------------------|
| INVEST REAL ESTATE INVESTMENT TRUST - More on this organization | | | Quotes & Charts |
|  News Releases (56) |  Photo Archive |  Company Earnings | INN.UN.(TSX) |