Condensed Consolidated Interim Financial Statements of
(Expressed in United States dollars)

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

For the three and nine months ended September 30, 2013
*(Unaudited)*

# AMERICAN HOTEL INCOME PROPERTIES REIT LP

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(Expressed in United States dollars) *(Unaudited)*

| | | September 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT | | | | |
| Cash and cash equivalents | $ | 20,958,211 | $ | 185,990 |
| Restricted cash | | 51,237 | | 250,000 |
| Trade and other receivables | | 1,466,732 | | - |
| Prepaids and deposits | | 1,456,285 | | - |
| Other assets | | 358,141 | | - |
| Deferred offering and finance costs | | 47,555 | | 1,691,218 |
| | | 24,338,161 | | 2,127,208 |
| Property, buildings and equipment (Note 5) | | 130,692,759 | | - |
| Intangible assets (Note 6) | | 8,073,371 | | - |
| Deferred income tax asset | | 2,014,177 | | - |
| | | 140,780,307 | | - |
| TOTAL ASSETS | $ | 165,118,468 | $ | 2,127,208 |
| **LIABILITIES** | | | | |
| CURRENT | | | | |
| Accounts payable and accrued expenses | $ | 4,156,775 | $ | 1,775,332 |
| Current portion of term loan (Note 7) | | 3,345,107 | | - |
| Deferred income tax liability - current | | 39,335 | | |
| | | 7,541,217 | | 1,775,332 |
| Construction facility (Note 7) | | 2,250,000 | | - |
| Term loan (Note 7) | | 64,189,494 | | - |
| Contingent consideration (Note 4) | | 5,035,443 | | - |
| Deferred compensation payable (Note 4) | | 228,884 | | |
| Deferred income tax liability | | 1,840,627 | | - |
| | | 73,544,448 | | - |
| TOTAL LIABILITIES | $ | 81,085,665 | $ | 1,775,332 |
| PARTNERS' CAPITAL | | 84,032,803 | | 351,876 |
| TOTAL LIABILITIES AND PARTNERS' CAPITAL | $ | 165,118,468 | $ | 2,127,208 |

COMMITMENTS (Note 9)

SUBSEQUENT EVENTS (Note 14)

See the accompanying notes to condensed consolidated interim financial statements.



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# AMERICAN HOTEL INCOME PROPERTIES REIT LP

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME** (Expressed in United States dollars) *(Unaudited)*

| | Three-month period ended September 30, 2013 | Nine-month period ended September 30, 2013 |
|---|---|---|
| Revenue | | |
| Rooms | $ 11,285,043 | $ 26,474,172 |
| Food | 2,800,066 | 6,456,385 |
| Rental and other | 257,606 | 626,457 |
| | 14,342,715 | 33,557,014 |
| Hotel expenses | | |
| Operating expenses | 7,207,816 | 16,866,953 |
| Energy | 735,018 | 1,616,241 |
| Property maintenance | 792,086 | 1,820,053 |
| Property taxes and insurance | 721,348 | 1,608,752 |
| Depreciation and amortization | 1,801,704 | 4,346,223 |
| | 11,257,972 | 26,258,222 |
| RESULTS FROM OPERATING ACTIVITIES | 3,084,743 | 7,298,792 |
| Corporate and administrative | 1,103,857 | 2,803,422 |
| Business acquisition costs | 271,404 | 1,754,265 |
| INCOME BEFORE FINANCE COSTS AND INCOME TAXES | 1,709,482 | 2,741,105 |
| Finance income | (6,066) | (29,995) |
| Finance costs | 975,682 | 2,400,559 |
| Net finance costs | 969,616 | 2,370,564 |
| INCOME BEFORE INCOME TAXES | 739,866 | 370,541 |
| Current income tax expense | 67,181 | 101,139 |
| Deferred income tax recovery | (368,967) | (367,675) |
| | (301,786) | (266,536) |
| NET INCOME AND COMPREHENSIVE INCOME | $ 1,041,652 | $ 637,077 |
| Basic and diluted weighted average net income per unit | $ 0.10 | $ 0.07 |
| Basic and diluted weighted average number of units outstanding | 10,405,000 | 8,904,252 |

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# AMERICAN HOTEL INCOME PROPERTIES REIT LP

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF PARTNERS' CAPITAL

(Expressed in United States dollars) *(Unaudited)*

| | Units Outstanding | General Partner | Limited Partner Units | Cumulative earnings / (deficit) | Total |
|---|---|---|---|---|---|
| **Balance as at December 31, 2012** | **800,000** | **$ 100** | **$ 806,640** | **$ (454,864)** | **$ 351,876** |
| Consolidation of pre-initial public offering units | (400,000) | | | | |
| Issuance of units on initial public offering | 9,570,000 | | 94,072,545 | | 94,072,545 |
| Issuance costs of units issued on initial public offering / overallotment | | | (9,738,124) | | (9,738,124) |
| Issuance of units on over-allotment | 435,000 | | 4,235,225 | | 4,235,225 |
| Net earnings and comprehensive income for the period | | | | 637,077 | 637,077 |
| Distributions to partners | | | | (5,525,796) | (5,525,796) |
| **Balance as at September 30, 2013** | **10,405,000** | **$ 100** | **$ 89,376,286** | **$ (5,343,583)** | **$ 84,032,803** |

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# AMERICAN HOTEL INCOME PROPERTIES REIT LP

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Expressed in United States dollars) *(Unaudited)*

| | Three-month period ended September 30, 2013 | Nine-month period ended September 30, 2013 |
|---|---|---|
| Cash provided by (used in): | | |
| OPERATIONS | | |
| Net income and comprehensive income | $ 1,041,652 | $ 637,077 |
| Interest paid | (877,354) | (1,893,893) |
| Items not affecting cash: | | |
| Depreciation and amortization | 1,801,704 | 4,346,223 |
| Accretion of contingent consideration | 49,132 | 119,094 |
| Amortization of deferred financing costs | 52,168 | 119,767 |
| Current income tax expense | 67,181 | 101,139 |
| Deferred income tax recovery | (368,967) | (367,675) |
| Interest expense | 881,855 | 2,169,170 |
| | 2,647,371 | 5,230,902 |
| Changes in non-cash operating working capital (Note 13) | (333,504) | (2,086,108) |
| | 2,313,867 | 3,144,794 |
| INVESTING | | |
| Purchase of property, buildings and equipment | (1,937,775) | (4,912,775) |
| Franchise application fees | (465,000) | (465,000) |
| Business acquisition, net of cash acquired | - | (57,806,729) |
| | (2,402,775) | (63,184,504) |
| FINANCING | | |
| Distributions paid | (2,245,159) | (4,774,185) |
| Units issued for cash (net of expenses) | - | 90,248,657 |
| Proceeds from construction facility | - | 2,250,000 |
| Payment on term loan | (804,006) | (6,100,002) |
| Financing costs paid | (10,213) | (1,011,302) |
| Restricted cash | (14,038) | 198,763 |
| | (3,073,416) | 80,811,931 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD (NET) | (3,162,324) | 20,772,221 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD (NET) | 24,120,535 | 185,990 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD (NET) | $ 20,958,211 | $ 20,958,211 |

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## 1. Reporting entity

American Hotel Income Properties REIT LP ("AHIP") is a limited partnership formed under the *Limited Partnership Act* (Ontario) to invest in hotel real estate properties in the United States. AHIP was established by and among 8290768 Canada Inc. (renamed American Hotel Income Properties REIT (GP) Inc.) (AHIP's "General Partner") and Maverick Management Corp. as the initial limited partner, pursuant to the terms of AHIP's Limited Partnership Agreement dated October 12, 2012. AHIP's head office and address for service is located at 1660 – 401 West Georgia Street, Vancouver, British Columbia, V6B 5A1, Canada.

AHIP was established, among other things, for the purpose of:

a) acquiring common shares and, where applicable, a ROC Share of American Hotel Income Properties REIT Inc. (the "U.S. REIT"), a ROC Share being defined as a share in the capital of the U.S. REIT which is designated within such capital as a preferred share;

b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of AHIP and making distributions to Unitholders (a Unitholder is defined as a person at any time that is a limited partner in AHIP and who is the beneficial owner of one or more Units); and

c) in connection with the undertaking set out above, reinvesting income and gains of AHIP and taking other actions besides the mere protection and preservation of AHIP's property.

On November 1, 2012, AHIP formed Lodging Properties LLC ("Lodging Properties"), a limited liability company pursuant to and in accordance with the Delaware Limited Liability Company Act.

On February 20, 2013, AHIP closed its initial public offering ("IPO") of 9,570,000 Units priced at Cdn$10.00 per Unit, for total gross proceeds of Cdn$95,700,000 (US$94,072,545). Included in the closing were 870,000 Units for total gross proceeds of Cdn$8,700,000 (US$8,552,050) from a partial exercise of the over-allotment option described in AHIP's final prospectus dated February 12, 2013 as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada.

On March 1, 2013, the exercise of the remaining balance of the over-allotment option was completed, resulting in the issuance of an additional 435,000 Units at a price of Cdn$10.00 per Unit for gross proceeds of Cdn$4,350,000 (US$4,235,225).

Concurrent with the closing of the IPO, pursuant to the Unit Purchase Agreement between AHIP and the sellers of Lodging Enterprises dated November 19, 2012 (the "Purchase Agreement"), AHIP indirectly acquired the outstanding share capital in a portfolio comprising an aggregate of 32 hotel properties located in 19 states ("Lodging Enterprises"), predominantly in smaller towns throughout the U.S. as disclosed in Note 4. The financial results of Lodging Enterprises have been included in the condensed consolidated interim financial statements from February 20, 2013. A substantial portion of Lodging Enterprises' revenue is generated through lodging agreements with several railroad companies. Lodging Enterprises operates both franchised and non-franchised properties.

**1. Reporting Entity (*continued*)**

Following the closing of the IPO, the U.S. REIT was formed pursuant to the Maryland General Corporation Law. The US REIT qualifies and intends to continue to qualify as a real estate investment trust pursuant to the U.S. Internal Revenue Code.

AHIP's Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol HOT.UN.

Effective July 22, 2013, AHIP's units are also listed in the United States on the OTCQX International marketplace under the symbol AHOTF.

**2. Basis of presentation and statement of compliance**

a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared by management in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. These condensed consolidated interim financial statements should be read in conjunction with AHIP's audited consolidated financial statements for the year ended December 31, 2012.

These condensed consolidated interim financial statements were approved and authorized for issue by the directors of the General Partner on November 6, 2013.

b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on a historical cost basis.

c) Functional and presentation currency:

AHIP's functional and presentation currency is United States ("US") dollars.

Transactions denominated in Canadian dollars are translated to U.S. dollars as follows: monetary assets and liabilities are translated at current rates of exchange and offering and acquisition costs are translated at historical rates of exchange. Revenues and expenses are translated at average rates of exchange for the period. All exchange gains and losses are recognized in the condensed consolidated interim statement of income and comprehensive income.

The functional currency of AHIP's subsidiaries is U.S. dollars.

d) Measurement uncertainty (use of estimates):

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results may differ from these estimates.



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**2. Basis of presentation and statement of compliance (*continued)***

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimates include the following:

i) Business combinations

The acquisition of a business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition dates. To support management's determination of the fair value of property, buildings and equipment, AHIP obtained third-party valuations. To support the determination of the value of intangible assets, management evaluated the incremental earning stream attributable to the lodging agreements discounted at an expected rate of return. The analysis is not completed as at September 30, 2013; therefore, the estimates used for the valuation of the property, buildings and equipment, intangibles, deferred income tax asset and deferred income tax liability in these condensed consolidated interim financial statements is subject to revision.

ii) Depreciation and amortization

Management has also estimated the useful lives of property, buildings and equipment in the determination of depreciation. The estimated useful lives of property, buildings and equipment are determined based on various factors including historical data and AHIP's expected use of the assets. Intangible assets are amortized over the average remaining contractual term of the lodging agreements.

**3. Significant accounting policies**

a) Basis of consolidation:

The consolidated financial statements comprise the financial statements of AHIP and its subsidiaries that are controlled by AHIP. Control exists when AHIP is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

Intra group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of AHIP and its subsidiaries.

b) Property, buildings and equipment:

i) Recognition and measurement:

Property, buildings and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.



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(Expressed in United States dollars) *(Unaudited)*

**3. Significant accounting policies (*continued)***

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When parts of an item of property, buildings and equipment have different useful lives, they are accounted for as separate items (major components) of property, buildings and equipment.

Gains and losses on disposal of an item of property, buildings and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, buildings and equipment, and are recognized as a separate line item in profit or loss.

ii) Subsequent costs:

The cost of replacing a part of an item of property, buildings and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to AHIP, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day maintenance of property, buildings and equipment are recognized in profit or loss as incurred.

iii) Depreciation

Depreciation is computed on a straight-line basis based on the useful lives of each component of property, buildings and equipment. Depreciation on new construction commences in the month after the asset is available for its intended use based upon the useful life of the asset, as outlined below.

The basis of depreciation and estimated useful lives are as follows:

| Asset | Basis | Rate (in years) |
|---|---|---|
| Buildings | Straight-line | 40 |
| Equipment | Straight-line | 5 - 15 |
| Automobiles | Straight-line | 5 |
| Leasehold improvements | Straight-line | 5 - 40 |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

c) Intangible assets:

Intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss.


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**3. Significant accounting policies (*continued)***

AHIP's intangible assets consist of lodging agreements with several railroad companies, which provide minimum guarantees on rooms reserved at AHIP's hotel properties.

Amortization is calculated based on the cost of the asset less its residual value. Amortization is recognized in earnings on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Intangible assets are amortized over the average remaining contractual term of the lodging agreements, with an estimated useful life of five to ten years.

d) Franchise fees:

Franchise fees are carried at cost less any accumulated amortization and any accumulated impairment loss and are amortized on a straight-line basis over the term of their estimated useful lives from the date that the agreements come into effect.

Amortization is calculated based on the cost to enter into the related franchise agreements, less their residual value.

e) Impairment of non-financial assets:

The carrying amounts of AHIP's non-financial assets, consisting of property, buildings and equipment, and intangible assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

When the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. When an indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased, the recoverable amount of that asset is estimated. A reversal of an impairment loss is recognized immediately in profit or loss if the recoverable amount of a previously impaired asset has subsequently increased to the lower of the asset's or cash generating unit's recoverable amount of carrying value had no impairment loss been recognized for the asset or cash-generating unit in prior years.


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**3. Significant accounting policies (*continued)***

f) Financial instruments:

i) Financial assets:

AHIP's financial assets are comprised of cash and cash equivalents, restricted cash, and trade and other receivables. AHIP classifies these financial assets as loans and receivables.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

ii) Financial liabilities:

AHIP has the following non-derivative financial liabilities: accounts payable and accrued expenses, construction facility, and term loan. AHIP classifies each of its non-derivative financial liabilities as other financial liabilities. Initial measurement is at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial liabilities are measured at amortized cost using the effective interest method.

All non-derivative financial liabilities are initially recognized on the date that AHIP becomes a party to the contractual provisions of the instrument.

AHIP derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

iii) Impairment of financial assets:

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to AHIP on terms that AHIP would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

AHIP considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Losses are recognized in profit or




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**3. Significant accounting policies (*continued)***

loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

g) Cash and cash equivalents:

AHIP considers all liquid investments with original terms to maturity of three months or less when acquired to be cash equivalents. Cash and cash equivalents consist of cash on hand and cash held at banks.

h) Restricted cash:

Pursuant to the terms of the loan agreement (Note 7), AHIP must maintain a cash reserve on deposit with the lender in respect of future capital expenditures.

i) Provisions:

A provision is recognized if, as a result of a past event, AHIP has a present legal or constructive obligation that can be estimated reasonably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the time value of money is material, provisions are determined by discounting the expected future cash flows using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as a finance cost.

j) Revenue recognition:

Revenue is generated primarily from the operation of AHIP's hotels and restaurants. Rental and other income is comprised of fees for property damage, vehicle charges, and maintenance charges at offsite customer locations.

Revenue is recognized when services are rendered, the amount is earned, and collectability is reasonably assured.

AHIP may collect payments in advance of the utilization of a facility. These payments are recorded as deferred revenue until such time as the applicable facility is utilized, at which time the deferred revenue is recognized as revenue.

k) Finance income and finance costs:

Finance income consists of interest on cash and cash equivalents and restricted cash, which is recognized in the period in which it is earned.

Finance costs comprise interest expense on borrowings. Finance costs are recognized in the period in which they are incurred. Interest expense on borrowings used to finance the renovation and construction of the hotel properties is capitalized to construction-in-progress during the period of construction.



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**3. Significant accounting policies (*continued)***

l) Deferred offering and acquisition costs:

Professional, consulting, regulatory, registration and other costs directly attributable to issuing equity instruments are recorded as deferred offering costs until the equity transaction is completed, if the completion of the transaction is considered likely. The transaction costs of an equity transaction are deducted from partners' capital. Costs related to the acquisition of a business and costs related to evaluating potential acquisitions are expensed in the period incurred.

m) Debt financing fees:

Fees and costs related to obtaining debt financing are capitalized against the related debt and amortized over the term using the effective interest rate method, and are included in finance costs. The unamortized balance of the fees and costs is included and shown as a reduction in the related debt.

n) Net income per unit:

Basic and diluted net income per unit is calculated by dividing net income by the weighted average number of units outstanding during the reporting period.

o) Income taxes:

AHIP is not subject to tax under Part I of the Income Tax Act (Canada) (the "Tax Act"). Each partner of AHIP is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of AHIP for its fiscal year ending in or on the partner's taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships and their investors (the "SIFT Measures"). A "SIFT partnership" (as defined in the Tax Act) will be subject to SIFT tax on its 'taxable non-portfolio earnings" (as defined in the Tax Act) at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. The "taxable non-portfolio earnings" less SIFT tax payable by a SIFT partnership will also be included in computing income of the Unitholder for purposes of the Tax Act as though it were a taxable dividend from a taxable Canadian corporation, subject to the detailed provisions of the Tax Act. The SIFT Measures do not apply to a partnership that does not hold any "non-portfolio property" throughout the taxation year of the partnership. Management believes that AHIP will not hold any "non-portfolio property" and should not be a SIFT partnership and therefore not subject to the SIFT Measures. Accordingly, no provision has been made for tax under the SIFT Measures. Management intends to continue to operate the AHIP in such a manner so as it remains exempt from the SIFT Measures on a continuous basis in the future. If AHIP becomes a SIFT partnership it will be generally subject to income taxes at regular Canadian corporate rates on its taxable non-portfolio earnings, if any.

AHIP filed an election to be treated as a partnership for U.S. federal income tax purposes. In addition, at least 90% of AHIP's gross income is expected to be qualifying income within the meaning of U.S. Internal Revenue Code (the "Code" or "IRC") section 7704 and AHIP is not required to register as an


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**3. Significant accounting policies (*continued)***

investment company under the Investment Company Act of 1940. As such, it is generally not subject to U.S. federal income tax under the Code. Furthermore, the U.S. REIT intends to timely make and maintain an election as a real estate investment trust ("REIT") under the Code for its first taxation year ending December 31, 2013 and in future taxation years. In order for the U.S. REIT to qualify as a REIT under the Code, it must meet a number of organizational and operational requirements, including a requirement to make annual distributions to its stockholders equal to a minimum of 90% of its REIT taxable income, computed without regards to a dividends paid deduction and net capital gains. The U.S. REIT generally will not be subject to U.S. federal income tax on its taxable income to the extent such income is distributed to its stockholders annually. Management believes that all REIT conditions necessary to eliminate income taxes for the U.S. REIT for the reporting period have been met. Accordingly no provision for U.S. federal income taxes has been made for the U.S. REIT. Even though the U.S. REIT qualifies for taxation as a REIT, it may be subject to certain state and local taxes. These amounts are not expected to be material to the condensed consolidated interim financial statements.

Management has operated and intends to continue operating the U.S. REIT in such a manner so as to qualify as a REIT on a continuous basis in the future. However, actual qualification as a REIT will depend upon meeting, through actual annual and quarterly operating results, the various conditions imposed by the Code. If the U.S. REIT fails to qualify as a REIT in any taxable year, it will be subject to U.S. federal and state income taxes at regular U.S. corporate rates, including any applicable alternative minimum tax. In addition, the U.S. REIT may not be able to re-qualify as a REIT for the four subsequent taxable years. Even if the U.S. REIT qualifies for taxation as a REIT, it may be subject to certain U.S. state and local taxes on its income and property, and to U.S. federal income and excise taxes on its undistributed taxable income and/or specified types of income in certain circumstances.

The U.S. REIT's wholly-owned subsidiary, Lodging Enterprises, is a taxable REIT subsidiary. Lodging Enterprises is subject to U.S. federal and state income tax on its taxable income. Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.



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## 3. Significant accounting policies (*continued)*

p) New standards and interpretations issued but not yet adopted:

In November 2009, the IASB issued IFRS 9, Financial Instruments, which is the first step in its project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 establishes the measurement and classification of financial assets. Under IFRS 9, financial assets are measured either at fair value through earnings or at amortized cost if certain conditions are met. The effective date of this standard is January 1, 2015, but early adoption is permitted. AHIP is assessing the impact of the standard on its financial statements.

## 4. Business acquisition of Lodging Enterprises

On February 20, 2013 (the "Closing Date"), the subsidiaries of AHIP indirectly acquired 100% of the outstanding share capital of Lodging Enterprises consisting of 32 hotel properties located throughout the U.S., of which 3 hotels were under construction at the date of the acquisition. The aggregate purchase price was $127,500,000, subject to working capital and capital expenditure adjustments, of which $59,561,840 was paid in cash, $74,538,344 was assumed under an existing term loan, and the balance attributable to contingent consideration.

The purchase price has been allocated to the assets acquired and liabilities assumed on a preliminary basis as follows:

| | | |
|---|---|---|
| Property, buildings and equipment | $ | 129,041,343 |
| Intangible assets | | 8,929,315 |
| Deferred income tax asset | | 1,966,541 |
| Deferred income tax liability | | (2,200,000) |
| Trade and other receivables | | 789,502 |
| Other assets | | 413,739 |
| Cash provided by seller | | 1,755,111 |
| Deposits | | 224,056 |
| Accounts payable and accrued expenses | | (1,869,389) |
| Deferred revenue | | (33,685) |
| Term loan | | (74,538,344) |
| Net assets | $ | 64,478,189 |
| | | |
| Consideration | | |
| Cash | $ | 59,561,840 |
| Contingent consideration (earnout) | | 4,916,349 |
| | $ | 64,478,189 |




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### 4. Business acquisition of Lodging Enterprises (*continued)*

Pursuant to the Purchase Agreement, $5,500,000 of the purchase price is subject to an earnout provision upon achievement of certain performance based targets prior to December 31, 2015. To the extent earned, AHIP's indirect U.S. subsidiary has the option of paying such amount in cash or in units of AHIP, or a combination thereof, by January 20, 2016. This contingent consideration has been recorded at a present value of $4,916,349 using a 4.0% discount rate. As at September 30, 2013, the contingent consideration balance was $5,035,443 after accretion of the balance for $49,132 and $119,094 for the three months ended September 30, 2013 and for the period from February 20, 2013 to September 30, 2013, respectively.

The Purchase Agreement provides for an additional $250,000 compensation to be paid to the sellers of Lodging Enterprises for each "Qualifying New Contract" that Lodging Enterprises enters into within two years of the Closing Date to a maximum of $1,250,000. A "Qualifying New Contract" is defined in the Purchase Agreement as a bona fide written agreement for guaranteed room rentals comprising financial and other terms substantially consistent with other similar contracts between Lodging Enterprises and any American or Canadian railway company with national operations that meet minimum contract term and revenue objectives. AHIP shall determine whether the contract satisfies the requirements of a Qualifying New Contract per the Purchase Agreement and shall provide the sellers of Lodging Enterprises with a computation notice within 10 business days following December 31, 2015.

Payment may be made in cash or Units, or a combination thereof, at the option of AHIP, and due within 20 days following December 31, 2015.

As it was uncertain whether Lodging Enterprises will be able to enter into additional Qualifying New Contracts by 2015, the fees for the signing of Qualifying New Contracts were not included in the purchase price of Lodging Enterprises at the date of acquisition, and the fees will be recognized upon the signing of each Qualifying New Contract. At September 30, 2013, the $228,884 present value amount of deferred compensation payable related to the signing of a railway contract for the Santa Teresa property (Note 9) is included in the condensed consolidated interim statement of financial position as a long-term liability.

AHIP is in the process of finalizing the allocation of values to the assets acquired and liabilities assumed. Specifically, management expects to conclude the valuation of the intangible assets by the end of the year. Accordingly, the actual amounts for each of these assets and liabilities may vary from the amounts disclosed above and the variations may be material. Changes in the preliminary estimates of fair values of the above assets and liabilities may increase or decrease the amount of depreciation and amortization recognized on property, buildings and equipment, and intangible assets acquired in periods after the closing of the transaction. For the three and nine months ended September 30, 2013, management's process of determining the allocation of the values for property, buildings and equipment, intangible assets, and deferred income tax liability resulted in the following revisions:

(Expressed in United States dollars) *(Unaudited)*

## 4. Business acquisition of Lodging Enterprises (*continued)*

| For the three months ended September 30, 2013 | Revised estimate Sept 30, 2013 | Revised estimate June 30, 2013 |
|---|---|---|
| Intangible assets | $ 8,929,315 | $ 8,907,370 |
| Trade and other receivables | 789,502 | 811,447 |

| For the nine months ended September 30, 2013 | Revised estimate Sept 30, 2013 | Original estimate as reported March 31, 2013 |
|---|---|---|
| Property, buildings and equipment | $ 129,041,343 | $ 130,241,344 |
| Intangible assets | 8,929,315 | 7,992,934 |
| Deferred income tax liability | (2,200,000) | (1,985,564) |
| Trade and other receivables | 789,502 | 811,447 |

For the three and nine months ended September 30, 2013, business acquisition costs totaling $271,404 and $1,754,265 respectively, are included in the condensed consolidated interim statement of income, of which $8,069 and $1,291,313 are related to the acquisition of Lodging Enterprises.

## 5. Property, buildings and equipment

| | Land | Buildings | Equipment | Automobiles | Leasehold improvements | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost or deemed cost: | | | | | | | |
| Balance at January 1, 2013 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Acquisition of Lodging Enterprises (note 4) | 15,475,927 | 102,899,372 | 9,107,413 | 39,390 | 21,756 | 1,497,485 | 129,041,343 |
| Additions | 275,510 | 1,378,173 | 1,017,984 | | | 2,241,108 | 4,912,775 |
| Transfers | 176,853 | 3,041,843 | 519,897 | | | (3,738,593) | - |
| Balance at September 30, 2013 | 15,928,290 | 107,319,388 | 10,645,294 | 39,390 | 21,756 | - | 133,954,118 |
| Depreciation: | | | | | | | |
| Balance at January 1, 2013 | - | - | - | - | - | - | - |
| Depreciation for the period | - | 1,961,388 | 1,290,986 | 5,815 | 3,170 | - | 3,261,359 |
| Balance at September 30, 2013 | - | 1,961,388 | 1,290,986 | 5,815 | 3,170 | - | 3,261,359 |
| Net book value: | | | | | | | |
| At September 30, 2013 | $ 15,928,290 | $ 105,358,000 | $ 9,354,308 | $ 33,575 | $ 18,586 | $ - | $ 130,692,759 |

During the nine months ended September 30, 2013, interest on the construction facility (note 7) of $16,404 was capitalized to construction-in-progress during the period of construction and subsequently transferred to buildings upon completion.



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## 6. Intangible assets

| | | September 30, 2013 |
|---|---|---|
| Intangible assets on date of acquisition | $ | 8,929,315 |
| Less: year-to-date amortization | | (1,084,828) |
| | | 7,844,487 |
| Intangible assets - contract signing fee (Note 9) | | 228,884 |
| Less: year-to-date amortization | | - |
| | | 228,884 |
| | $ | 8,073,371 |

## 7. Construction facility and term loan

| | | September 30, 2013 |
|---|---|---|
| Term loan (a) | | 68,401,949 |
| Construction facility (b) | $ | 2,250,000 |
| | | 70,651,949 |
| Less: unamortized portion of debt issuance costs on term loan | | (867,348) |
| | | 69,784,601 |
| Current portion of indebtedness | | (3,345,107) |
| | $ | 66,439,494 |

At the Closing Date, a U.S. chartered bank amended the existing term loan held by Lodging Enterprises and assumed by AHIP upon the acquisition, and extended Lodging Properties and Lodging Enterprises (collectively the “Borrowers”) a $70 million term loan (the “Term Loan”) and a $10 million construction facility (the “Construction Facility” and together with the Term Loan, the “Debt Financing”), secured by a first-priority security interest in all business assets of the Borrowers, including first-priority mortgages on each of the properties of Lodging Enterprises (the “Initial Portfolio”).

(Expressed in United States dollars) *(Unaudited)*

**7. Construction facility and term loan *(continued)***

a) The Term Loan has a fixed interest rate of 4.85% and a five year term. The Term Loan has a 180 month amortization period, with the remaining principal balance due and payable at the end of the term, subject to prepayment. The Term Loan can be prepaid, subject to a prepayment fee equal to 3% of the outstanding principal balance during the first year following the Closing Date, 2% of the outstanding principal balance during the second year following the Closing Date and 1% of the outstanding principal balance during the third year following the Closing Date. There are no prepayment fees during the fourth and fifth years of the term.

b) The Construction Facility has a floating interest rate based on 30-day LIBOR plus 3.0% (with a floor of 4.0%) and a two year term. Advances under the Construction Facility are available to finance up to 75% of approved project costs or 75% of project appraised value, whichever is less. The Debt Financing includes, among other things, financial covenants required the Borrowers to:

i) maintain a fixed charge ratio minimum of 1.10

ii) maintain a tangible net worth of at least $62 million

iii) have a ratio of total liabilities to net worth of no more than 150%

iv) maintain cash reserves on deposit of at least $1 million

v) fund a capital expenditure reserve of 3% of gross room revenue, to be accumulated monthly, and

vi) maintain guarantees under contracts with railroad operators for at least 60% of the rooms of the Borrowers' pledged hotels.

The Debt Financing also contains restrictions on the Borrowers' ability to make distributions or pay management fees or leasing expenses if a default or event of default exists under the Debt Financing.

Principal installments payable within the next five fiscal years and thereafter on the Construction Facility and Term Loan are as follows:

| | | |
|---|---|---|
| 2013 | $ | 823,152 |
| 2014 | | 3,386,284 |
| 2015 | | 5,806,605 |
| 2016 | | 3,727,099 |
| 2017 | | 3,922,954 |
| Thereafter | | 52,985,855 |
| | $ | 70,651,949 |



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**8. Partners' Capital**

a) Authorized:

The capital of AHIP consists of an unlimited number of limited partner units of AHIP and the equity interest held by the General Partner.

b) Issued:

On October 12, 2012, the General Partner made a capital contribution of $100 and has no further obligation to contribute capital. On October 12, 2012, the initial limited partner of AHIP, Maverick Management Corp., subscribed for one unit of AHIP for $1.

On November 6, 2012, AHIP issued 799,999 Units to various subscribers, including the Principals and directors and officers of the General Partner (collectively, the "Seed Capital Investors"), for aggregate gross proceeds of $799,999. On February 20, 2013, the Seed Capital Investors' Units were consolidated on a two-for-one basis.

On February 20, 2013, AHIP closed its initial public offering ("IPO") of 9,570,000 Units priced at Cdn$10.00 per Unit, for gross proceeds of Cdn$95,700,000 (US$94,072,545). On March 1, 2013, the exercise of the remaining balance of the over-allotment option was completed, resulting in the issuance of an additional 435,000 Units at a price of Cdn$10.00 per Unit, for gross proceeds of Cdn$4,350,000 (US$4,235,225).

For the three and nine months ended September 30, 2013, offering costs of $nil and $9,738,124, respectively, were deducted from partners' capital of which $1,679,011 was deferred at December 31, 2012.

c) Allocation of net income or net loss:

Where Distributable Cash (defined as, for any period, the aggregate of all amounts received by AHIP in such period, whether by way of dividends, interest or otherwise, from and in respect of its direct and indirect investment in the securities held by AHIP, including its investment in any subsidiaries, less reasonable reserves determined by the General Partner to be necessary to operate the affairs of AHIP in a prudent and businesslike manner, and less taxes, if any, payable by AHIP) is paid in respect of a fiscal year, the net income and taxable income of AHIP in respect of that fiscal year shall be allocated among all Partners (defined as General Partner and the Unitholders) that were Partners at any time in the fiscal year on the following basis:



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**8. Partners' Capital *(continued)***

i) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of $100 per annum; and

ii) as to the balance, to the Unitholders as a class, and to each Unitholder in an amount calculated by multiplying such balance by a fraction, the numerator of which is the sum of distributions received by such Unitholder with respect to such fiscal year and the denominator of which is the aggregate amount of distributions made by AHIP to the Unitholders as a group with respect to such fiscal year.

Where no Distributable Cash is paid in respect of a fiscal year, net income and taxable income of AHIP in respect of that fiscal year shall be allocated among the Partners on the following basis:

i) first, to the General Partner 0.01% of the net income and taxable income of AHIP to a maximum of $100 per annum; and

ii) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares of the balance divided by 12. A Proportionate Share, in respect of each Unitholder, means that fraction which, as of the date of such determination:

- has as its numerator the number of Units held by such Unitholder; and
- has as its denominator the aggregate number of Units outstanding.

Net loss and taxable loss of AHIP in respect of a fiscal year shall be allocated among all Partners that were Partners at any time in the fiscal year on the following basis:

i) first, to the General Partner 0.01% of the net loss and taxable loss of AHIP to a maximum of $100 per annum;

ii) as to the balance, to the Unitholders who were holders of Units at the end of each month ending in such fiscal year, pro-rata in accordance with their respective Proportionate Shares as at the end of each month, the balance divided by 12.

d) Distribution policy:

AHIP intends to make monthly distributions to Unitholders of record on the last business day of each month. Distributions will be paid within 15 days following the end of each month. AHIP may also make additional distributions in excess of monthly distributions during the year, as the General Partner may determine.

For the nine month ended September 30, 2013, the General Partner has declared distributions of Cdn$0.546 per unit to be paid to Unitholders totaling $5,525,796. Of this amount, $751,611 is included in accounts payable and accrued expenses.



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## 9. Commitments

a) Operating leases:

AHIP has entered into operating leases for its office facility, office equipment and automobiles. Future minimum lease payments under non-cancelable operating leases as of September 30, 2013 are as follows:

| | | |
|---|---|---|
| 2013 | $ | 75,029 |
| 2014 | | 200,263 |
| 2015 | | 60,734 |

The above amounts exclude the lease for AHIP's office space located at Suite 1660-401 West Georgia Street, Vancouver, BC, Canada. On March 12, 2013 O'Neill Hotels & Resorts Ltd. ("OHR") entered into the lease for a term from May 1, 2013 to June 30, 2017 for an annual amount of Cdn$64,950. This lease was signed by OHR to expedite the leasing process and AHIP reimburses OHR for the related rental payments on a monthly basis.

b) Lodging agreements:

Lodging Enterprises has various lodging agreements with several railroad companies. Under these agreements, Lodging Enterprises typically agrees to operate and maintain certain company-owned lodging and restaurant properties for the use of authorized railroad employees. The agreements provide for a minimum number of rooms to be available, and they also specify certain quality, service, transportation, and insurance requirements to be provided by Lodging Enterprises. Lodging Enterprises receives a fixed rate per rented room. Lodging Enterprises may rent the remaining rooms to the general public. These agreements have terms ranging from annual renewals to expirations in 2020, with room rates payable at a fixed amount or adjusted based on a formula including the consumer price index.

c) Santa Teresa:

On July 9, 2013, AHIP announced a commitment with SunOne Developments Inc. (“SunOne”) to construct a 56-room Oak Tree Inn hotel and Penny’s Diner (collectively "Santa Teresa") located in Santa Teresa, New Mexico, secured by a 10 year railway contract for all 56 rooms. Accordingly, AHIP recorded the $228,884 present value amount of deferred compensation payable at September 30, 2013 for the signing of this railway contract and included the corresponding amount in intangible assets for the three month period ended September 30, 2013. Amortization of this amount will commence when Santa Teresa is operational and the services stipulated in this railway contract can be provided.

In addition, Santa Teresa will be financed and developed in accordance with the Master Development Agreement between SunOne and AHIP. AHIP has agreed to provide mezzanine financing of up to $0.65 million to SunOne, and upon completion AHIP has agreed to a total purchase price of $5.1 million, which is equal to 95% of the as-stabilized appraised value, as determined by a nationally recognized appraisal company. The property is expected to open for business by July 2014.



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**9. Commitments *(continued)***

d) Brunswick:

On August 23, 2013, AHIP announced a commitment with SunOne to construct a 25-room Oak Tree Inn hotel and Penny's Diner (collectively "Brunswick") located in Brunswick, Maryland, secured by a 10 year railway contract for 15 rooms. Brunswick will be financed and developed in accordance with the Master Development Agreement between SunOne and AHIP. AHIP has agreed to provide mezzanine financing of up to $0.39 million to SunOne, and upon completion AHIP has agreed to a total purchase price of $2.8 million, which is equal to 95% of the as-stabilized appraised value, as determined by a nationally recognized appraisal company. The property is expected to open for business by September 2014.

e) Hotel franchise agreements:

In connection with the proposed acquisition described in Note 14 below, AHIP will enter franchise agreements with Hilton Worldwide and with Marriott International, Inc. For the three and nine months ended September 30, 2013, AHIP paid franchise application fees totaling $465,000 which are included in prepaids and deposits at September 30, 2013. Amortization will commence on the effective dates of the respective franchise agreements.

**10. Related party transactions**

a) AHIP has entered into a hotel management agreement with TR Lodging Enterprises Inc. (the "Hotel Manager"), a company controlled by a director of the General Partner to manage and operate the hotel properties.

The operating subsidiary of AHIP is responsible for reimbursing the Hotel Manager for any operating expenses and direct costs incurred with respect to the operations of the properties and their lodging businesses, such as salary and benefit costs of hotel staff and other operating expenses. The hotel management agreement also provides for an amount equal to 3.50% of gross revenues to be paid to the Hotel Manager. The Hotel Manager will also be entitled to a capital expenditure fee equal to 5.0% of capital expenditures, including maintenance capital expenditures. In addition, commencing in 2014 the Hotel Manager is eligible to receive an incentive fee equal to 15% of the amount by which the gross operating profit of all hotels managed by the Hotel Manager, on an aggregate basis, exceeds the annual budgeted gross operating profit for all hotels as approved by the independent directors of the General Partner. The incentive fee may not exceed 50% of the aggregate base hotel management fees for the year in which the incentive fee is earned.

In addition, the Hotel Manager is entitled to an accounting, administration and purchasing fee of $15,000 per property acquired on February 20, 2013 for each of the first and second years of the agreement, $20,000 per property in the third year of the agreement, and $25,000 per property in each year thereafter, and $25,000 per property acquired subsequent to February 20, 2013.

AHIP recorded $621,924 and $1,472,768 in corporate and administrative expenses related to management fees detailed above and charged by the Hotel Manager for the three and nine months ended September 30, 2013, respectively, of which $1,439 is included in accounts payable and accrued expenses as at

**10. Related party transactions *(continued)***

September 30, 2013. In addition, management fees of $46,865 and $163,438 for the three and nine months ended September 30, 2013, respectively, were capitalized to property, buildings and equipment, of which $7,422 is included in accounts payable and accrued expenses as at September 30, 2013.

b) Compensation

Key management is those persons having authority and responsibility for planning, direction, and controlling the activities of AHIP, directly or indirectly. Total compensation awarded to key management for the three months and nine months ended September 30, 2013 was $150,223 and $344,552 respectively.

**11. Financial instruments**

The carrying values of AHIP's cash and cash equivalents, restricted cash, trade and other receivables, and accounts payables and accrued expenses approximates their fair values due to the short-term nature of these financial assets and liabilities.

The carrying values of AHIP's construction facility and term loan approximate their fair values due to the recent date of inception of the construction facility and term loan. Going forward, the fair values of the construction facility and term loan will be estimated by discounting the future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions. Discount rates will either be provided by lenders or observable in the open market.

AHIP is exposed to a number of risks in its normal course of operations from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:



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**11. Financial instruments *(continued)***

a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

As described in Note 7, AHIP's construction facility bears interest at floating rates. Fluctuations in interest rates will impact the cost of financing incurred in the future. AHIP monitors its interest rate exposure on an ongoing basis.

The borrowing costs arising from the construction facility are capitalized to the construction in progress to which the loan relates during the period of construction. The construction in progress was substantially complete on May 16, 2013, so the capitalization of borrowing costs into the project ceased on that date. Therefore, for the three and nine months ended September 30, 2013, any change to the applicable interest rates would have impacted AHIP's earnings only from that date forward. For every 1% change in interest rate, AHIP's earnings would have changed by an estimated $5,625 and $7,725 respectively.

b) Credit risk and economic dependence:

Credit risk is the risk of financial loss to AHIP if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The maximum exposure to credit risk is the full carrying value of the financial instrument.

AHIP is exposed to credit risk with respect to trade and other receivables. At September 30, 2013, trade receivables are $1,466,732 (2012 - $nil). Amounts past due are $61,150 (2012 - $nil), all of which is expected to be collected. The bad debt write-off was $4,133 and $11,889 for the three and nine months ended September 30, 2013 (2012 - $nil).

The associated risk is mitigated by initiating a prompt collection process.

Revenues from one customer represent approximately $6,837,109 and $16,458,029 or 49.0% and 47.7% of AHIP's total revenues for the three and nine month periods ended September 30, 2013, respectively. As at September 30, 2013, $555,291 was receivable from this customer.

c) Liquidity risk:

Liquidity risk is the risk that AHIP will not be able to meet its financial obligations as they fall due. Property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. If AHIP were required to liquidate a property investment, the proceeds to AHIP may be significantly less than the aggregate carrying value of such property.

AHIP manages liquidity risk through monitoring the repayment dates and refinancing dates of its Construction Facility and Term Loan, monitoring its debt covenants, and managing its cash flows. AHIP's objective is to maintain sufficient available credit facilities to fund on ongoing operational and capital requirements. In addition to trade and other receivables, AHIP has cash and cash equivalents of $20,958,211 at September 30, 2013 (December 31, 2012 - $185,990).



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### 11. Financial instruments *(continued)*

The timing of estimated cash outflows relating to financial liabilities are outlined in the table below:

| | | Value at September 30, 2013 | Maturity |
|---|---|---|---|
| Accounts payable and accrued expenses | $ | 4,156,775 | Less than 1 year |
| Current portion of term loan | | 3,345,107 | Less than 1 year |
| Term loan | | 64,189,494 | 2015 - 2017+ |
| Construction facility | | 2,250,000 | 2015 |
| Contingent consideration (earnout) (Note 4) | | 5,035,443 | 2016 |
| Deferred compensation payable (Note 9) | | 228,884 | 2016 |

### 12. Capital management

| | | September 30, 2013 | | December 31, 2012 |
|---|---|---|---|---|
| Construction facility | $ | 2,250,000 | $ | - |
| Term loan | | 67,534,601 | | - |
| Partners' capital | | 84,032,803 | | 351,876 |
| Total capital | $ | 153,817,404 | $ | 351,876 |

AHIP defines capital as the aggregate of, construction facility, term loan and partners' capital. AHIP's objectives in managing capital are to maintain a level of capital that: complies with investment and debt restrictions pursuant to the final prospectus dated February 12, 2013 as filed with the securities commissions and other securities regulatory authorities in all provinces and territories of Canada; complies with existing debt covenants; funds its business strategies; and builds long-term partners' value. AHIP's capital structure is periodically reviewed by the board of directors of the General Partner.

### 13. Supplemental cash flow disclosure

| | | Three-month period ended September 30, 2013 | | Nine-month period ended September 30, 2013 |
|---|---|---|---|---|
| Changes in non-cash operating working capital balances: | | | | |
| Trade and other receivables | $ | (67,336) | $ | (744,411) |
| Other assets | | (50,473) | | 8,008 |
| Prepaids and deposits | | (546,601) | | (767,229) |
| Accounts payable and accrued expenses | | 330,906 | | (582,476) |
| | $ | (333,504) | $ | (2,086,108) |


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## 14. Subsequent events

a) Proposed Acquisition:

On October 10, 2013 AHIP announced that it has agreed to acquire four hotel properties located in metropolitan Pittsburgh, Pennsylvania (the "Acquisition Properties") for an aggregate purchase price of approximately $57.3 million (the "Acquisition"), excluding post-acquisition adjustments and a $6 million restricted cash reserve to fund brand mandated property improvement plans. The Acquisition Properties comprise an aggregate of 471 guest rooms and consists of three hotels under the 'Hampton Inn' flag (a Hilton brand), and one hotel under the 'Residence Inn' flag (a Marriott brand).

b) Short-Form Prospectus (the "Prospectus"):

On October 10, 2013 AHIP announced it had entered into an agreement with a syndicate of underwriters (the "Underwriters"), to sell, on a bought deal basis up to 3,967,500 subscription receipts ("Subscription Receipts"), inclusive of 517,500 Subscriptions Receipts issued pursuant to the exercise in full of the over-allotment option, at a price of Cdn$10.15 per Subscription Receipt for gross proceeds to AHIP of approximately Cdn$40.3 million (the "Offering"). The Underwriters' Fee will equal 4% of the gross proceeds of the Offering.

AHIP filed the final Prospectus on October 24, 2013. On October 31, 2013 AHIP announced the completion of the Offering, including the full exercise of the over-allotment option.

AHIP will use a portion of the net proceeds from the Offering to satisfy the cash portion of the aggregate purchase price for the Acquisition Properties including the funding of the brand mandated property improvement plans, with the remainder of the purchase price satisfied through debt financing described in the Prospectus. The balance of the net proceeds of the Offering will be used: (i) to pay AHIP's expenses incurred in connection with the Offering; (ii) for future acquisitions of hotel properties, including properties for which mezzanine financing has been provided by AHIP; (iii) to renovate and rebrand AHIP's recently acquired property in Jefferson City, Missouri to Oak Tree Inn standards; (iv) to fund mezzanine loans for properties to be developed in accordance with the development agreement in place between AHIP and SunOne; and (v) for general corporate and working capital purposes.

The completion of the Acquisition is expected to occur on or about November 21, 2013 and not later than January 10, 2014. The proceeds from the Offering will be held by Computershare Trust Company of Canada (the "Subscription Receipt Agent"), and invested in short-term obligations of, or guaranteed by, the Government of Canada or such other investments approved by AHIP and consented to by the Underwriters. In the absence of a Termination Event (as defined in the Prospectus), each Subscription Receipt entitles the holder to receive, without payment of additional consideration, one unit of AHIP (each, a "Unit") and an amount per Subscription Receipt equal to the amount per Unit of any cash distributions made by AHIP for which record dates have occurred during the period from and including October 31, 2013 to and including the day immediately preceding the date Units are issued or deemed to be issued (which amount will include the distribution in the amount of Cdn$0.075 per Unit payable on November 15, 2013 to Unitholders of record on October 31, 2013).




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**14. Subsequent events *(continued)***

If a Termination Event occurs, each Subscription Receipt will entitle the holder thereof to receive an amount equal to the Subscription Price plus a pro rata share of interest earned on the related funds by the Subscription Receipt Agent, less any applicable withholding taxes.

The Subscription Receipts are listed on the TSX under the symbol HOT.R. Additional information relating to the Subscription Receipts is included in the Prospectus.

c) Forward Interest Rate Lock:

On November 4, 2013, AHIP deposited $760,000 with a major international bank (the "Lender") to lock the interest rate (the "Rate Lock") on the four proposed loans relating to the Acquisition Properties for an aggregate gross loan amount of $38 million. The terms of the Rate Lock are as follows:

- 30 day Rate Lock period, with a 30 day extension option
- Interest rate locked at 5.02%
- Deposit of 2% of the loan amount (aggregate of $760,000 for all four loans). If the 10 year swap rate declines by 25 bps during that Rate Lock period, then the Lender can require an additional deposit of 1% (aggregate of $380,000). After that, each incremental decrease of the 10 year swap rate by another 15 bps will require an additional 1% deposit (aggregate of $380,000).

If the loan does not close within 30 days, AHIP may request, on a one time basis, a 30 day extension of the initial Rate Lock period following deposit of an additional $174,000 in aggregate, and is responsible for paying the breakage costs and transaction costs of the bank. The bank has not committed to close on the loan. If the bank determines not to approve the loan, or the loan otherwise does not close, then AHIP will be responsible for these costs. The deposit will be applied to those costs and costs under the term sheet. If there is any excess left after being applied, then those funds will be returned to AHIP.

AHIP is responsible for paying a transaction fee of between $1,200 to $1,600 per loan from the time of Rate Lock until the loan closes, or the bank unwinds its hedge position. If the loan closes within 30 days, the bank will waive these daily fees.

d) Distributions:

On October 21, 2013, AHIP announced a cash distribution of Cdn$0.075 per unit for the period of October 1, 2013 to October 31, 2013, which is equal to Cdn$0.90 per unit on an annualized basis. The distribution is to be paid on November 15, 2013 to unitholders of record on October 31, 2013.



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